

Gujarat's Budget: Fit for 21st Century

Gujarat's Budget is an example of a 21st century state policy document, says **Mukul Asher**

State budgets deserve a more prominent role in policy debates concerning India's public financial management. In FY10, the share of all states combined, in India's total Government expenditure and revenue was 53 per cent, and 64 per cent respectively. States play a critical role in the delivery of public services, and in implementing Central schemes. The major responsibilities for generating livelihoods, providing public amenities, and meeting development aspirations of the people lie with the states. India's federal structure should not unduly restrict the economic and political freedoms of states. Instead, the country needs to engage in a reasoned, dispassionate political debate concerning the ways for achieving such a balance.

In addition, in the post-2008 global financial crisis environment, fiscal and debt sustainability issues have acquired much greater prominence and urgency. This applies not just to India as a whole but also to the individual states and other governmental units. Without competence and discipline in public financial management, it will simply not be feasible to meet the needs and expectations of India's citizens. Keeping the above in mind, this article analyses the Budget of Gujarat.

A brief overview

On the basis of selected socio-economic indicators for Gujarat, in Chart 1, the following observations may be made:

- Gujarat accounts for 5 per cent of India's population, but 7.2 per cent of India's GDP. According to its budget documents, Gujarat's

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FY2013 Gross State Domestic Product (GSDP) is projected to be Rs 6769 billion (USD 138 billion). The nominal GSDP grew at an average rate of 16.7 per cent at current prices during FY2006, and FY2011 period, and 10.3 per cent in real terms, higher than the national average. If this is sustained, its share in India's GDP can be expected to increase.

- Gujarat's per capita GSDP was Rs 84,962 (USD 1808) in FY2011. Given the high growth rates since then, the per capita GSDP is projected to exceed USD 2100 by March 2013.
- Urbanisation is more pronounced here than in the country as a whole (42.6 per cent as compared to 31.2 per cent of total population for India). Thus, the state increasingly

Chart 1: Gujarat: Selected Socio-Economic Indicators

Indicators	Year	
Demographic		
Population (million)	2011	60.4
As share of India's population	2011	5.0
Rural (percent)	2011	57.4
Urban (percent)	2011	42.6
Sex Ratio (Females/males)	2011	0.92
Infant Mortality (per thousand live births)	2011	44
Literacy Rate	2011	79.3
Males	2011	87.2
Females	2011	70.7
Total Workers (million)	2011	21.3
AS % of total population	2011	35.2
Percent male	2011	68.1
Percent female	2011	31.9
Economic		
Gross State Domestic Product (Current prices, Rs billion)	2010-11	5131.7
As share of India's GDP	2010-11	7.2
Per Capita GSDP (Rs.)	2010-11	84,962
USD (1 USD = INR 47)	2010-11	1808
Sector Share (percent of GSDP)		
Primary	2010-11	20.9
Secondary	2010-11	35.9
Tertiary	2010-11	43.2

Source: Calculated from The Socio Economic Review 2011-12, Gujarat State Available at http://financedepartment.gujarat.gov.in/budget12_13_pdf/34_Socio_Economic_Review_English.pdf, last accessed on 9 March 2012

needs to prepare for a future when a majority of its population will be urban. Urban amenities, including transport, affordable housing, water, and electricity will therefore, need to be emphasised. Moreover, current urban governance institutions will need to be restructured, with an infusion of expertise and professionalism. These are also essential to raise non-conventional resources, such as from municipal bonds.

- The state's total workers number 21.3 million, which is only 35.2 per cent of the total population. For sustained high growth, efforts will need to be made to increase this share to at least two-fifths of the total population as rapidly as possible. Generating new livelihoods should therefore, receive priority over existing livelihoods, especially where they are not viable in the medium term. This also suggests the need to empower the population to participate in viable productive economic activities, including setting up businesses.
- The secondary sector, which includes manufacturing, accounted for 35.9 per cent of the GSDP in FY2011, which is a far higher share than for the country as a whole. (24.4 per cent in FY2010). Thus, it will be a key state if India's target of increasing the share of manufacturing in GDP to 25 per cent is to be realised and the state therefore, deserves support and co-operation of the rest of the country. This impressive performance is due to Gujarat's focus on addressing key barriers to manufacturing growth. Some positive steps that it has taken in this direction are the following: Addressing infrastructure barriers including power generation and roads; taking initiatives to make land available and land markets function in a relatively friction-free atmosphere; making labour understand the need for productivity increases for higher incomes and job security; and finding more effective complementarities between the public and private sectors.
- The primary sector accounts for

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about 20 per cent of its GSDP, as compared to 15 per cent for India, as a whole. During 2001-10, its agricultural growth averaged 10.7 per cent per year, as compared to around 4 per cent nationally. Gujarat produces only 3 per cent of India's foodgrains and per hectare production of foodgrains, especially for rice and wheat, is below the national average. However, its share in Indian production of groundnut and cotton is around one-third, and for oil-seeds around one-sixth. It is thus an important contributor to India's agricultural sector. Its farmers, backed by sound infrastructure and power supply, are receptive to new technologies and innovation in logistics and supply chain.

It may be useful to briefly note selected socio-economic indicators that are not in Chart 1.

The state's literacy rate in 2011 was 79 per cent, significantly higher than the country as a whole (74 per cent), but needs to be much higher to match its ambitions. Similar

trends are exhibited for life expectancy.

Among the indicators where it lags include the sex ratio, 918 females per 1000 males, as compared to India's already unsatisfactory ratio of 940. Its infant mortality rate is also much higher at 44 per 1000 live births than around 5, found in most high-income countries.

Budget strategy and initiatives

As discussed earlier, Gujarat's continued social and economic progress at healthy rates will benefit not just its citizens, but India as a whole, as Gujarat increasingly welcomes more people from other states.

Its Budget proposes to build a statue of liberty in memory of Sardar Vallabhbhai Patel who was the architect of unified independent India. This is commendable as state budgets seldom contain proposals having national reach.

The Budget fits the requirements of the 21st century, as it continues to exhibit a sound development strategy based on the application of a knowledge-economy¹ while emphasising its future orientation; the economic and social empowerment of citizens through physical and digital connectivity; and a focus on implementing public programmes to achieve desired outcomes.

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The Budget rightly focuses on what all citizens need rather than on trying to guess what select groups of people will want from a budget from an electoral, or from an ideological perspective.

Aggregate fiscal indicators

The following observations may be

¹see Asher, Mukul G, 2011. "Acquiring proficiency in operationalizing knowledge based economy: An imperative for India", *Journal of Governance and Public Policy*, 1,1, pp 20-30 for elaboration of substance of knowledge economy and how it can be operationalized.

Chart 2: Gujarat: Selected Fiscal Indicators

Category	Year		
	2010-11 (Actual)	2011-12 (R E)	2012-13 (B E)
Revenue Receipts (Rs Billion)	524	623	759
(as percent of GSDP)	10.2	10.5	11.2
States' Own revenue receipts (Rs. Billion)	412	472	580
(as percent of total Revenue receipts)	78.6	75.7	76.4
Revenue Expenditure (Rs billion)	574	604	722
(as % of GSDP)	11.1	10.2	10.6
Balance on Revenue Account (Rs. Billion)	-51	+19	+37
(as percent of GSDP)	-0.97	0.32	0.54
Capital Expenditure (Rs. Billion)	142	198	281
(as % of GSDP)	2.7	3.3	4.1
Total expenditure (Rs billion)	716	802	1003
(as percent of GSDP)	13.9	13.5	14.8
Fiscal Balance (Total Exp. - revenue receipts)	-192	-179	-244
As % of GSDP	-3.7	-3	-3.6
Own Tax Revenue	363	415	512
As % of Revenue Expenditure	63.3	68.7	70.9
As % of Total Expenditure	50.6	51.7	51
As % of GSDP	7	7	7.5
Total Public Debt	1109	1246	1402
As percent of GSDP	21.6	21	20.7
Total Public Liabilities**	1357	1512	N.A
As percent of GSDP	26.4	25.5	N.A
GSDP (Rs billion)	5132	5912	6769

** : Includes Liabilities on Public Account, Such As provident Fund

Sources : Adapted from The " Socio Economic Review 2011-12, Gujarat State"

Available at http://financedepartment.gujarat.gov.in/budget12_13_pdf/34_Socio_Economic_Review_English.pdf

"The Budget in Brief" available at http://financedepartment.gujarat.gov.in/budget12_13_pdf/33_Budget_in_Brief_English.pdf

"Statements Under the Gujarat Fiscal Responsibility Acts, 2005" available at http://financedepartment.gujarat.gov.in/budget12_13_pdf/30_Fiscal_Responsibility_Act_2005_English.pdf last accessed on 9 March 2012

RE : Revised Estimates

BE : Budgeted Estimates

made from Gujarat's aggregate fiscal indicators provided in Chart 2.

- Its total expenditure in FY2012 is projected to be 14.8 per cent of GSDP, with capital expenditure budgeted at 4.1 per cent, a substantial increase from 2.7 per cent in FY 2010. In contrast, revenue expenditure is budgeted to fall from 11.1 per cent of GSDP in FY2010 to 10.6 per cent in FY2012.
- The annual plan expenditure in FY2013 is Rs 506 billion, equivalent to 9.9 per cent of GSDP, with social services allocated 40 per cent, agriculture and related areas 32.4 per cent, and transport 9.8 per cent. From an analytical perspective, the distinction between current and capital expenditure is however, more appropriate than between plan and non-plan ex-

penditure, as capital expenditure, which has a multi-year horizon, needs to be distinguished from current expenditure. In contrast, the distinction between plan and non-plan expenditure is arbitrary, and reflects unwarranted politicisation of economic decision-making, and lessens accountability.

- The abolition of plan and non-plan expenditure categories, strengthening current-capital classification of expenditure, merits serious consideration. The central government must take a lead in this reform. The Budget projects a revenue surplus, equivalent to 0.54 per cent of GSDP, which is a significant improvement over deficit equivalent to 0.97 per cent of GSDP in FY2011.
- If the overall Budget deficit is estimated as the difference between

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total expenditure and revenue receipts (which includes the share in central taxes, non-tax revenue, and grants and contributions from the Central Government), it is projected at 3.6 per cent of GSDP, about the same as 3.7 per cent in FY2011²

- Gujarat's total public debt is projected to be 20.7 per cent of GDP in FY2012, which is essentially constant as compared to FY2011³. However, total public liabilities, which is the relevant indicator, are projected at 25.5 per cent of GSDP. As against the projected total liabilities of Rs 1512 billion as of March 2012, the sinking fund balance as on March 2011, was only Rs 63 billion (4.1 per cent of the total). The liabilities and the fiscal deficit figures suggest that the state has limited fiscal space for rapid increase in government expenditure. It must avoid negative growth shock; and improve capital productivity.

²The press reports quote Gujarat's Finance Minister as projecting the FY 2013 Budget deficit at Rs 178 billion, equivalent to 2.6 percent of GSDP. But this figure as well as the basis on which it is estimated is not in the Budget speech or in supporting documents. The practice of including public debt issued, net receipts on Public Account, and loan recoveries in receipts must be discontinued as these are more appropriately regarded as financing budget deficit (below the line), or in the case of loan recoveries, netted out against expenditure on gross loans. It is hoped that the next year's budget will reflect these improvements.

³Reserve Bank of India has estimated Gujarat's public debt in FY 2011 at 31.4 percent of GSDP, much higher than the estimate in Gujarat's budget. Even if the liabilities on Public Accounts were included, the discrepancy between RBI's projection and that of the State remains at 5.9 percent of GSDP (31.4-25.5). RBI projects Gujarat's public debt ratio lower than that of West Bengal (40.8 percent), and Bihar (39.5 percent), but higher than Haryana (18.9 percent), another state with solid infrastructure investment.

Its tax arrears as on March 31, 2011, were Rs 109 billion, equivalent to more than a quarter of the state's own revenue in FY2012, and do provide an opportunity to generate some fiscal space. The main avenues for enhancing fiscal space will need to be better public financial management, including greater efficiencies in obtaining outputs and outcomes from budgetary expenditure; and from acquiring better capabilities to access non-conventional revenue such as, from more productive utilisation of state assets, including land and airspace rights, better public debt management, treasury management, and other such avenues.

Initiatives

The Budget contains several initiatives which are consistent with sound development strategy. They are also designed to address some of India's supply-side constraints, especially in energy, water, skilled manpower, and infrastructure such as, ports and roads. Only selected initiatives have been included below.

Energy security:

- Partnering by Gujarat state companies with Central government companies for inter-state petrochemical pipelines, covering about one-third of the country.
- Gujarat plans to generate solar power through photovoltaic (PV) modules mounted atop 100 kilometers of water canal. This helps save land for renewable energy projects. It could potentially reduce moderately, evaporation from canals; and help protect water bodies from encroachment and effluent discharges. The PV modules however, are less efficient than solar thermal applications, but they can have utility, if directed to applications with high-end use efficiency.
- Plans to add a total 500 megawatt capacity from wind energy.

Physical and digital connectivity:

- Upgradation of 5800 kilometer of roads connecting to different villages and cities.

- Creation of Ro-Ro Ferry services for inland transportation.
- Creation of e-libraries throughout the state.
- Completion of remaining agricultural electricity connections by 2015.
- Re-survey of agriculture land to provide accurate digitised records to all stakeholders in land.

Skilled manpower

- Establishment of an autonomous university for infrastructure, engineering, and management.
- Commencing of India's first vocational education university by 2013.
- Linking skills' development, particularly in information technology of young persons with the 150th birth anniversary of Swami Vivekanand to promote a combination of skills with norms compatible with India's civilisation and unity. It is only when competence is combined with norms conducive for behaviour exhibiting regard for overall public interest, that an individual or an organisation deserves trust.

Conclusion

Gujarat's FY2013 Budget strategy is based on the application of

Gujarat's future fiscal health will depend on sustaining a high real rate of economic growth, improving public service delivery systems, better expenditure management, and using state assets more productively. The exuberant fiscal policies are therefore, unwarranted



knowledge-economy concepts, with emphasis on physical and digital connectivity, and competent public financial management. It is therefore, fit for the requirements and aspirations of 21st century India. Its future fiscal health however, will depend on sustaining a high real rate of economic growth, improving public service delivery systems, better expenditure management, and using state assets more productively. The exuberant fiscal policies are therefore, unwarranted.

This article argues that a substantial improvement in social indicators and in rural and urban sanitation is needed if Gujarat is to improve its quality of life.

Several measures may be considered for incorporation in future Budgets. The Budget speech needs to be more analytical and informative, with better explanations of strategy and assumptions underlying the exercise. It will be essential to introduce multi-year budgeting, and incorporate inter-connections between the current and capital expenditure. The distinction between plan and non-plan expenditure categories no longer serves a useful purpose, and therefore, should be discarded. With the increasing size and sophistication of Gujarat's public finances, a shift from cash towards accrual accounting merits serious consideration. Such a shift will permit the construction of balance sheets and asset registries, enabling better management of fiscal risks facing the state. Consideration should be given to more formally adopting budgeting for results framework. This will facilitate allocation of budgetary resources based on performance or outputs and outcomes rather than on need.

This article strongly suggests that the FY2013 Budget will assist Gujarat to keep its lead as a high growth, innovative, and competent state constructively co-operating with others in India's federal structure. Gujarat has legitimate expectations that its partners in India's federal political structure will also constructively co-operate with it. ■



Mukul G. Asher, Professor,
National University of Singapore
mukul.asher@gmail.com