CHAPTER I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Bihar 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 structure of Government Accounts and layout of the Finance Accounts are shown in **Appendix 1.1.** The analysis has been made based on State Finance Accounts and the information obtained from the State Government. The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.2.** A time series data on State Government finances is given in **Appendix 1.3**.

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 (2008-09) vis-à-vis the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1: Summary of Current Year's Fiscal Operations

(Rupees in crore)

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
Section-A: Revenue					**Non Plan**	**Plan**	**Total**
28,209.72	Revenue receipts	**32980.69**	**23,562.87**	Revenue expenditure	21231.29	7280.29	28511.58
5,086.17	Tax revenue	6172.74	9,251.97	General services	10247.72	281.79	10529.51
525.59	Non-tax revenue	1153.32	9,867.99	Social services	7885.71	4366.39	12252.10
16,766.29	Share of Union Taxes/ Duties	17692.51	4,437.90	Economic services	3093.90	2632.11	5726.01
5,831.67	Grants from Government of India	7962.12	5.01	Grants-in-aid and Contributions	3.96	0.00	3.96
Section-B: Capital							
0.00	Misc. Capital Receipts	0.00	6,103.78	Capital Outlay	99.55	6336.80	6436.35
26.16	Recoveries of Loans and Advances	11.32	272.70	Loans and Advances disbursed	354.39	196.66	551.05
1,611.90	Public Debt receipts*	5927.89	1,631.85	Repayment of Public Debt*	**	**	1682.28
0.00	Contingency Fund	0.00	0.00	Contingency Fund	**	**	0.00
12,837.48	Public Account receipts	16941.02	10,333.58	Public Account disbursements	**	**	17310.63
1,407.58	Opening Cash Balance	2188.06	2,188.06	Closing Cash Balance	**	**	3557.09
44,092.84	**Total**	**58048.98**	**44,092.84**	**Total**			**58048.98**

(Source: Finance Accounts for the year 2007-08 and 2008-09).
*Excluding net transactions under ways and means advances and overdraft.

** Bifurcation of Plan and Non-Plan not available

The significant changes during 2008-09 as compared to the previous year are given below:

- Revenue receipt of the State increased by Rs 4771 crore (17 *per cent*) over the previous year, mainly due to increase in the State's own tax revenue (Rs 1087 crore), non-tax revenue (Rs 628 crore), Government of India (GOI) grants (Rs 2130 crore) and share of Union taxes (Rs 926 crore).
- Revenue expenditure increased by Rs 4949 crore over the previous year, mainly due to increase in expenditure on General Services (Rs 1277 crore), Social Services (Rs 2384 crore) and Economic Services (Rs 1288 crore).
- While the expenditure on Social Services registered an increase of 24 *per cent*, expenditure on Economic Services increased by 29 *per cent.*
- Capital expenditure on asset creation increased by Rs 333 crore (five *per cent)* over the previous year.
- Public Account receipts and disbursements increased by Rs 4104 crore (32 *per cent)* and Rs 6977 crore (68 *per cent*) respectively. Net receipts under the Public Account decreased by Rs 2874 crore over the previous year.
- The net impact of these transactions led to a significant increase of Rs 1369 crore in the cash balance at the end of the year over the previous year.

1.1.2 Review of the fiscal situation

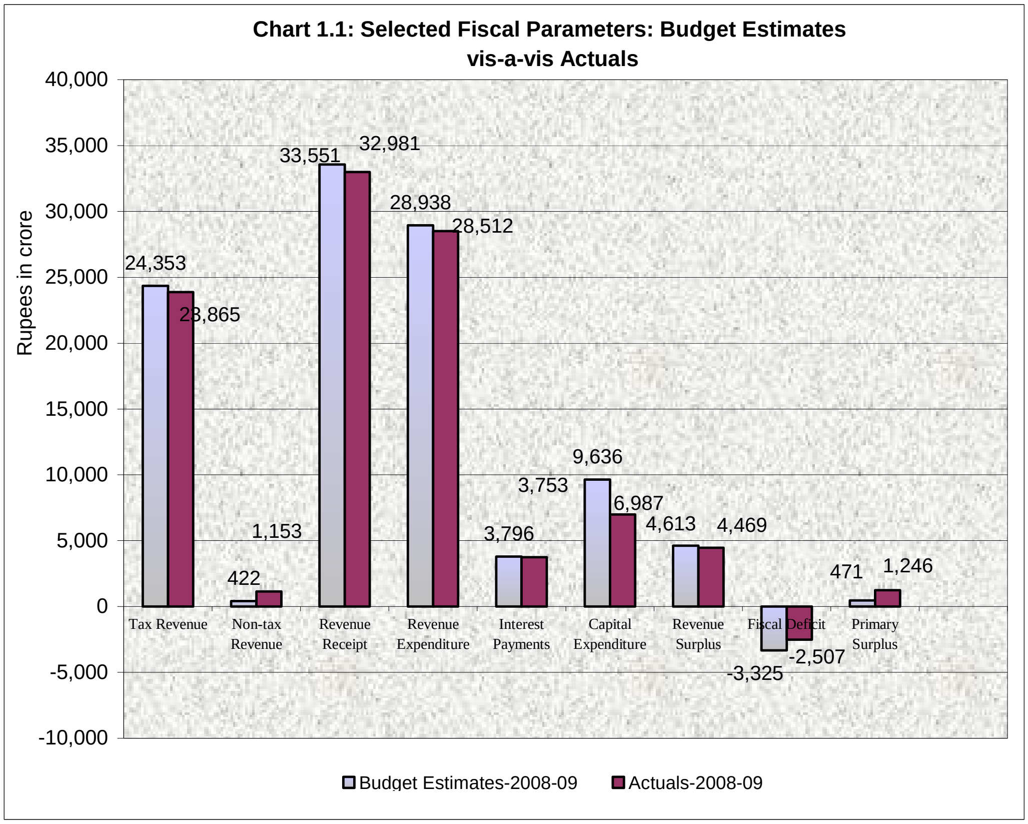
As per the Bihar Fiscal Resposibility and Budget Management (FRBM) Act 2006, in line with the recommendations of the Twelfth Finance Commission, (TFC), the State Government was to eliminate the revenue deficit by the end of 2008-09 and reduce the fiscal deficit to not more than three *per cent* of the Gross State Domestic Product (GSDP) by 2008-09.

The State is running into a revenue surplus during the award period of TFC. The fiscal deficit of the State is within three *per cent* of the GSDP.

1.1.3 Budget Analysis

The budget papers presented by a State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives, due to a variety of causes, some within the control of the Government and some outside.

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



The actuals were fairly in line with the estimates, barring the following:

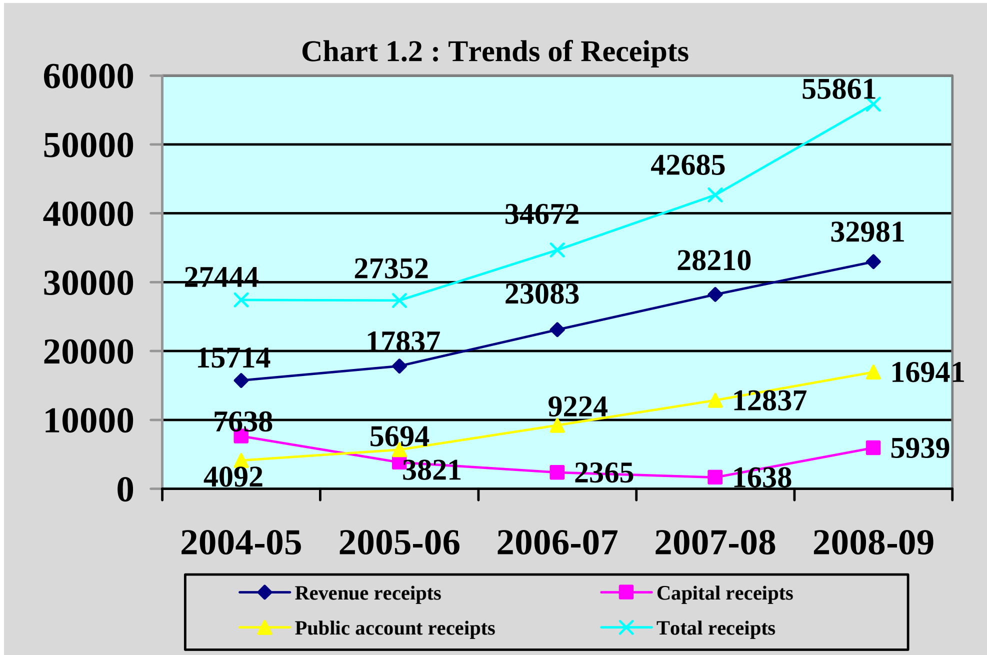
- Non-tax receipts surpassed the estimates by 173 *per cent.*
- While revenue receipts and revenue expenditure were lower than the estimates by Rs 570 crore and Rs 426 croe respectively, capital expenditure fell short of the estimate by Rs 2649 crore (27 *per cent*), indicating difficulties in fund absorption for capital works.

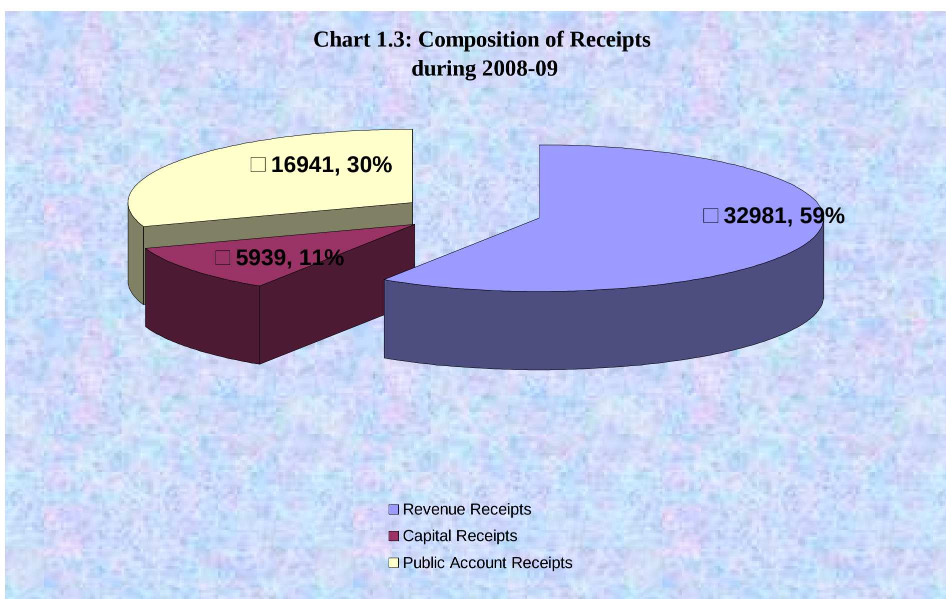
- Revenue surplus, fiscal deficit and primary surplus were off the mark; revenue surplus was short by Rs 144 crore (three *per cent*) against the budget estimate; fiscal deficit also came down by Rs 818 crore (25 *per cent*) whereas primary surplus increased by Rs 775 crore (165 *per cent*) against the estimate.

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 2004-09. **Chart 1.3** depicts the composition of resources of the State during the current year.





- The total resources of the State increased by Rs 13176 crore (31 *per cent*) over the previous year, mainly due to increase of Rs 4104 crore (32 *per* *cent*) in Public Account receipts and Rs 4771 crore (17 *per cent)* in revenue receipts.

- Public Debt receipts went up by Rs 4316 crore, an increase of 268 *per cent* over the previous year, mainly due to a substantial increase in open market borrowings. Open market borrowings increased from Rs 1144 crore in 2007-08 to Rs 5778 crore in 2008-09, a whopping 405 *per cent* over the previous year.

- The State's tax revenue increased from Rs 5086 crore in 2007-08 to Rs 6173 crore in 2008-09 (increase of 21 *per cent*), but the percentage of tax receipts to revenue receipts remained the same during 2007-08 and 2008-09.

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 Agencies[1] 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. To present a holistic picture of the availability of aggregate resources, the funds directly transferred to State implementing agencies are presented in **Appendix 1.5**.

- It may be noted that the percentage of central funds (receipt and expenditure) bypassing the state budget increased considerably in the current year to 16.53 *per cent* and 17.31 *per cent* from 11.24 *per cent* and 10.63 *per cent* respectively in the previous year 2007-08.

- Since State implementing agencies do not have a uniform procedure to account for the funds received and do not always follow a timely reporting procedure, there appears to be no certainty about the amount of funds actually utilized during the year. There is an urgent need to ensure better monitoring of this expenditure either by the State or the GOI.

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 2004-09 are presented in **Appendix 1.3** and also depicted in **Chart 1.4** and **1.5** respectively.

[1] State implementing agencies include any organization/institution including non-Governmental organization which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State implementation society for Sarva Shiksha Abhiyan and State Health Mission for National Health Rural Mission etc.

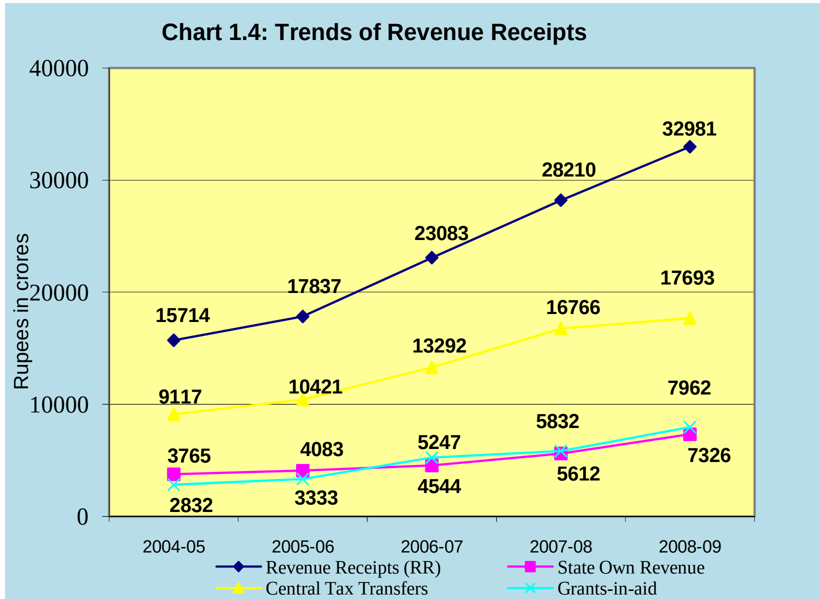
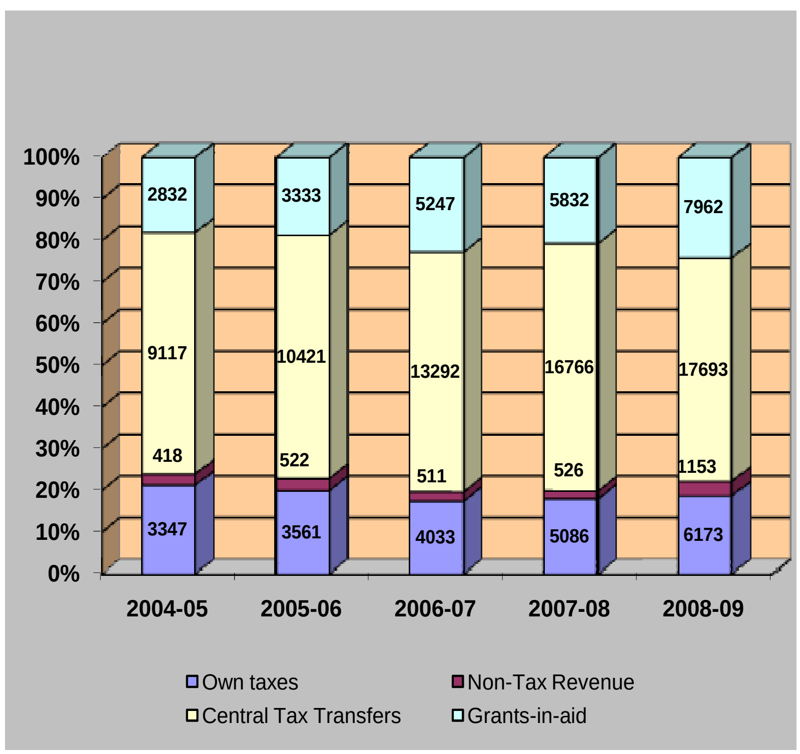


Chart 1.5: Composition of Revenue Receipts during 2004-09 (Rupees in crore)



- Increase in the State's own tax revenue was mainly due to increase in taxes on sales, trade etc. Rs 481.68 crore (19 *per cent*), Stamp duty and registration fee Rs 62.05 crore (9.48 *per cent*), State excise Rs 153.72 crore (29.26 *per cent*) and taxes on goods and passenger Rs341.54 crore (36.42 *per cent*) over the previous year.

- Increase in non-tax revenue was mainly due to more receipts under interest realized on investment of cash balances (Rs 133.86 crore) 78.41 *per cent*, Non-ferrous mining and metallurgical industries (Rs 66.35 crore) 37.14 *per cent* over the previous year and under miscellaneous general services (Rs 384.93 crore) 61.32 *per cent* due to debt relief given by GOI on repayment of consolidation of loans.

- From 2004-05 onwards, except for the current year, the revenue growth was higher than the growth in GSDP. In 2008-09, however, for every one *per cent* growth in GSDP, revenue collection grew only by 0.67 *per cent.*

The trends of revenue receipts relative to GSDP are presented in **Table 1.2**.

Table 1.2: Trends in Revenue Receipts relative to GSDP

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	**15714**	**17837**	**23083**	**28210**	**32981**
Rate of growth of RR (*per cent)*	26.16	13.51	29.41	22.21	16.91
R R/GSDP (*per cent)*	21.46	22.25	23.33	26.83	25.00
Buoyancy Ratios[2]					
Revenue Buoyancy w.r.t GSDP	2.49	1.43	1.25	3.55	0.67
State's Own Tax Buoyancy w.r.t GSDP	1.50	0.67	0.57	4.17	0.84
Revenue Buoyancy with reference to State's own taxes	1.66	2.13	2.19	0.85	0.79

(Source: Finance Accounts of Government of Bihar).

1.3.1 State's Own Resources

The wide variations in tax revenue and non tax revenue under the principal heads of accounts in the budget estimates and the actual amount realized revealed that the budget estimate was understated during 2008-09. The percentage of expenditure on collection of taxes on sales, trade, etc., State Excise and stamp duty and registration fees was more than the all India average percentage for 2007-08.

Tax revenue/non tax revenue of the State was far below the normative projections made by TFC. Although non tax revenue (excluding debt relief of Rs 385 crore) was merely 56 *per cent* of the *TFC* projections for the year, it exceeded the State's own projection made in its Fiscal Correction Path (FCP).

1.3.2 Loss of Revenue due to Evasion of Taxes

In the Commercial Taxes Department, out of 90 cases of tax evasion detected as on 31 March 2009, assessment/investigation was completed in 25 cases (28 *per*

[2]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*.

cent) in 2008-09, involving Rs 6.87 lakh leaving a balance of 65 cases pending finalization.

The number of refund cases pending at the beginning of the year 2008-09, claims received during the year, refunds allowed during the year and cases pending at the close of the year (March 2009), as reported by the departments are mentioned in **Table 1.3**.

Table 1.3: Department wise pending cases of refund

(Rupees in lakh)

Sl. No.	Particulars	Sales tax		Taxes on entry of goods into local areas		State excise		Entertainment tax	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	1995	4,423.04	5	20.34	335	417.71	5	0.12
2.	Claims received during the year	126	4,287.03	2	30.29	1,355	1,781.52	1	2.58
3.	Refunds made during the year	91	3,892.06	1	0.99	1,511	2,030.83	1	2.58
4.	Balance outstanding at the end of the year	2,030	4,818.01	6	49.64	179	168.40	5	0.12

(Source: State Government Departments).

1.3.3 Revenue Arrears

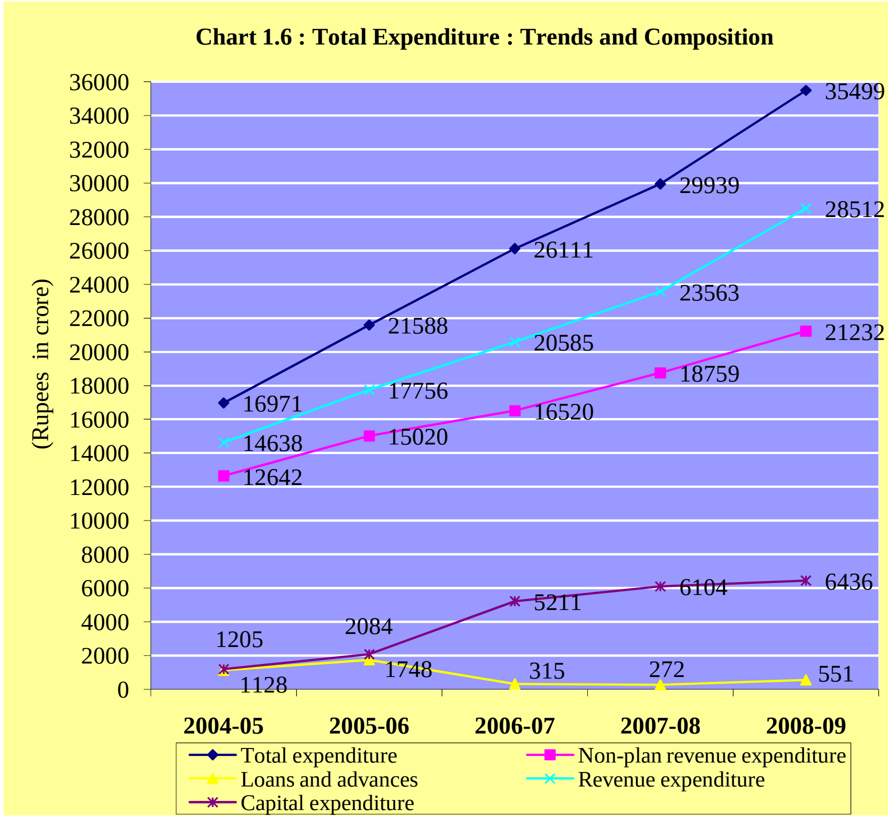
The arrears of revenue as on 31 March 2009 in respect of the principal heads of revenue as reported by the departments was Rs 1,703.52 crore, of which Rs 414.32 crore was outstanding for more than five years **(Appendix 1.6).** The position of arrears of revenue at the end of 2008-09 in respect of other departments was not furnished (November 2009), despite requests made between May and October 2009.

1.4 Application of resources

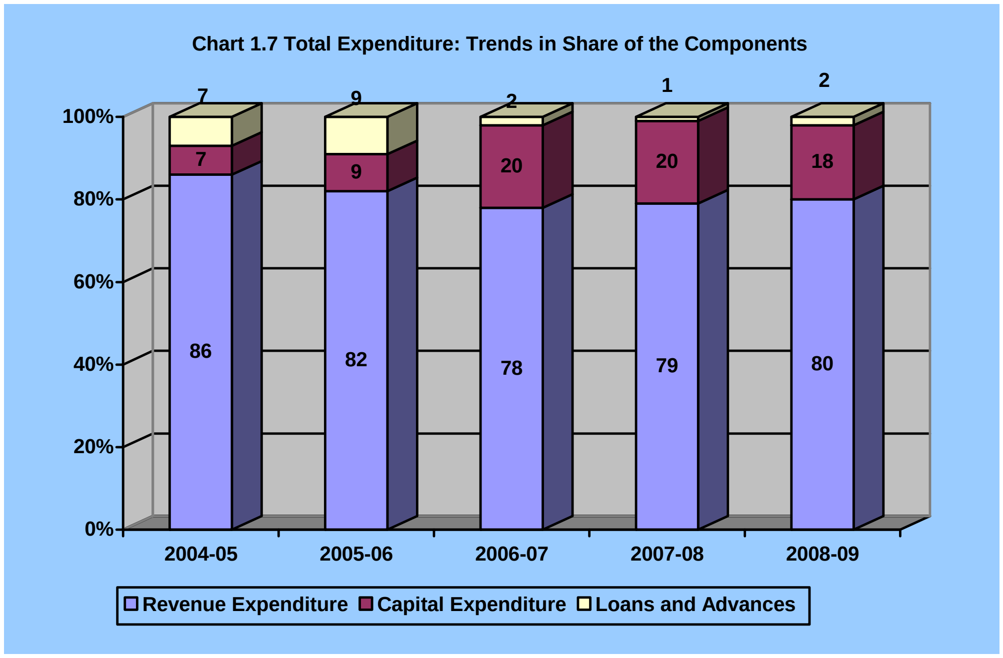
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit 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.

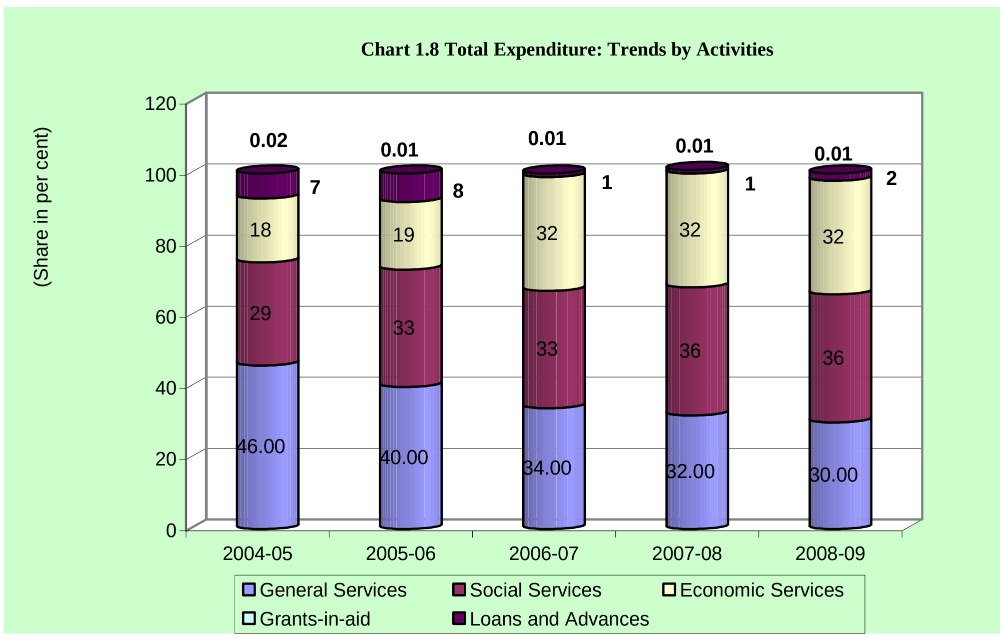
1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends of total expenditure over a period of five years (2004-09). Its composition in terms of ‘economic classification’ and ‘expenditure by activities’, is depicted respectively in **Charts 1.7 and 1.8.**



- The total expenditure of the state increased from Rs 16971 crore in 2004-05 to Rs 35499 crore in 2008-09. The total expenditure during the current year increased by Rs 5560 crore over the previous year, of which revenue expenditure was Rs 4949 crore and capital expenditure including disbursement of loans and advances was Rs 611 crore. Increased Loans and Advances to Power Projects (Rs 200 crore) was the main component in the increase of capital expenditure. In terms of Plan and Non-Plan, the non plan expenditure (revenue and capital) increased by Rs 2735 crore and plan expenditure by Rs 2824 crore during the year. During the current year, 92.91 *per cent* of the total expenditure was made from revenue receipts and the remaining from capital receipts and borrowed funds. In recent years, Bihar had been very high growth of GSDP and hence, the buoyancy of the total expenditure in relation to GSDP fell to 0.73 in the current year. This indicated a tendency to spend less than the increase in income and higher elasticity of total expenditure with respect to GSDP.





- In terms of activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, Social and Economic service, grants-in-aid and loans and advances. The movement of relative shares of these components of expenditure indicates that while the share of Social Services increased from 29.06 *per cent* in 2004-05 to 36.32 *per cent* in 2008-09, share of Economic Services in total expenditure increased from 17.89 *per cent* (2004-05) to 31.88 *per cent* (2008-09) and disbursement of loans and advances decreased from 15.27 to 1.55 *per cent* during these years. Relative shares of grants-in-aid remained practically the same during 2004-09. The share of General Services which was the dominating portions (46.38 *per* cent) of the total expenditure in 2004-05 showed a diminishing trend and was only 30.24 *per cent* of the total expenditure during 2008-09.

- Revenue expenditure and capital expenditure increased by Rs 4949 crore (21 *per cent)* and Rs 611 crore (9.58 *per cent)* respectively. The share of revenue expenditure and capital expenditure to the total expenditure was 80 *per cent* and 20 *per cent* respectively which showed a marginal increase of one *per cent* in share of revenue expenditure to the total expenditure from the previous year. Growth in GSDP, therefore, was higher than growth in revenue expenditure in the current year.

- The Non-Plan revenue expenditure (NPRE) OF Rs 21232 crore exceeded not only the normative projections made by TFC (Rs 18380 crore) by Rs 2852 crore (15.51 *per cent)* but also the projection made in FCP (Rs 17785 crore) by Rs 3447 crore (19.38 *per cent)* and fell short of Rs 1393 crore (6.16 *per cent)* against budget estimate of Rs 22625 crore during the current year. The major increase was in Education, Sports, Art and Culture (Rs 1210 crore), Water Supply, Sanitation, Housing and Urban Development (Rs 700 crore), Social Welfare & Nutrition (Rs 623 crore), Agriculture and Allied Activities (Rs 536 crore), Rural Development (Rs 456 crore), Irrigation and Flood Control (Rs 142 crore), and Transport (Rs 86 crore).

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 1.4** presents the trends in the expenditure on these components during 2004-09.

Table-1.4: Components of Committed Expenditure

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Salaries & Wages , *Of which*	5005.36 (31.85)	5783.35 (32.42)	6061.21 (26.06)	6469.53 (22.93)	7967	7545.61 (22.88)
Non-Plan Head	4564.16	5152.79	5538.57	5914.81	7379	6996
Plan Head*	441.20	630.56	477.64	554.72	588	550
Interest Payments	3474 (22.11)	3649 (20.46)	3416 (14.80)	3707 (13.14)	3796	3753 (11.38)
Expenditure on Pensions	2325 (14.80)	2456 (13.77)	2497 (10.82)	2789 (9.89)	3438	3479.03 (10.55)
Subsidies	-	-	-	-	-	861.58 (2.61)

Figures in the parentheses indicate percentage to Revenue Receipts
**Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.*

(Source: Finance Accounts of Government of Bihar)

The total salary under the Non-Plan head compared to NPRE, net of interest payments and pensions was 49.97 *per cent*, which was significantly more than 35 *per cent* as recommended by TFC. The interest and pension payments for 2008-09 were within the projected expenditure of Rs 4840 crore and Rs 3527 crore in the FCP and also within the assessment made by TFC of Rs 4876.31 crore and Rs 3563.79 crore respectively.The State Government also implemented a new contributory pension scheme on the Central pattern which was applicable to employees joining on or after 1 September 2005. The increase in pension payments during 2008-09 over the previous year was attributed mainly to the end of two-year moratorium (March 2007) on the date of retirement declared by the Government. Out of subsidies amounting to Rs 861.58 crore disbursed, Rs 720 crore was paid to Bihar State Electricity Board as a resource gap.

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 1.5**

Table 1.5: Financial Assistance to Local Bodies etc.

(Rupees in crore)

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE*	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	564.99	803.65	845.17	808.58	925.04	966.80
Municipal Corporations and Municipalities	117.91	277.56	141.13	209.40	1055.35	950.04
Zilla Parishads and Other Panchayati Raj Institutions	2.63	3.75	6.50	13.16	1441.95	900.05
Development Agencies	110.15	18.56	3.20	1.88	46.31	26.84
Hospitals and Other Charitable Institutions	5.00	3.00	--	5.00	28.00	20.51
Other Institutions	12.68	3.92	21.23	95.35	1909.05	1558.25
Total	**813.36**	**1,110.44**	**1,017.23**	**1,133.37**	**5405.70**	**4422.49**
Assistance as per percentage of RE	5.56	6.25	4.94	4.81		15.51

(Source: Accounts compiled by the Accountant General (A & E), Bihar)
* Figures worked out on the basis of provisions made under different grants and. Budget estimate figures are gross figures.

Expenditure in excess of budget estimate was made through re-appropriations within the grants.

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 of expenditure (assessment of outlay-outcome relationships for selected services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like, education, health etc. Low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. Low fiscal priority (ratio of expenditure category to aggregate expenditure) would be attached to a particular sector if it was below the national average while low fiscal capacity would be reflected if the State's per capita expenditure was below the national average even after having a fiscal priority that was more than or equal to the national average. **Table 1.6** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table-1.6: Fiscal Priority and Fiscal capacity of the State in 2005-06 and 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	19.50	61.44	30.41	14.13
Bihar's Average (Ratio) 2005-06	31.53	60.17	33.31	9.65
All States/National Average* (Ratio) 2008-09	19.16	67.68	33.90	16.07
Bihar's Average (Ratio)* 2008-09	26.92	69.72	36.32	18.13
Fiscal Capacity of the State	DE#	SSE	CE	
All States Average Per capita Expenditure 2005-06	3,010	1,490	692	
Bihar's per Capita expenditure (Amount in Rupees) in 2005-06	1,443	799	232	
Adjusted per Capita** Expenditure (Amount in Rupees) in 2005-06	1474	NR	339	
All States' Average per capita expenditure 2008-09	5,030	2,520	1,254	
Bihar's Per Capita Expenditure (Amount in Rupees) in 2008-09	2,625	1,367	683	
Adjusted Per Capita** Expenditure (Amount in Rupees) in 2008-09	NR	NR	NR	

* As per cent to GSDP
** Calculated as per the methodology explained in the **Appendix 1.2**
AE: Aggregate Expenditure; DE: Development Expenditure; SSE Social Sector Expenditure
CE: Capital Expenditure.
Population of Bihar: nine crore in 2005-06 and 9.43 crore in 2008-09.
Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.
Source : (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics
(2) Population figures were taken from Projection 2001-2026 of the Registrar General & Census Commissioner, India (Website:http://www.censusindia.gov.in) Population=Average of Projected population for 2005 and 2006.
NR = No adjustment required since the state is giving adequate fiscal priority.
(3) Expenditure figures are from the Finance Accounts of Government of Bihar.
Note: Data for Arunachal Pradesh has not been included

1.5.2 Fiscal Priority

In 2005-06, the Bihar Government gave adequate fiscal priority to Aggregate Expenditure (AE) and Social Sector Expenditure (SSE) compared to other states in the country since AE/GSDP, and SSE/AE in the case of Bihar was higher than the national average. The priority given to Developmental Expenditure (DE) and Capital Expenditure (CE) in Bihar was, however, not adequate as the DE/AE ratio and CE/AE ratio for Bihar was lower than the all states' average for this categories. In 2008-09, the position improved significantly and the State Government gave adequate priority to all categories of expenditure and all ratios for Bihar were higher than the all States' averages.

1.5.3 Fiscal Capacity

In 2005-06, the state's per capita DE of Rs 1443, SSE of Rs 799 and CE of Rs 232 were lower than the all States' averages of Rs 3010, Rs 1490 and Rs 692 respectively. Had the government spent as much of AE on DE and CE as per the all States' average, the adjusted per capita expenditure on DE and CE (calculated as per methodology given in the **Appendix 1.2**) would have been Rs 1474 and Rs 339 which would still be below the all States' average for this categories. This means that the absorptive capacity [3] in Bihar was low and effective systems needed to be put in place to increase the benefits to the people.

In 2008-09 also, even though adequate fiscal priority was given by the Government, the per capita expenditure was significantly lower in all categories of expenditure compared to other states, calling urgent attention to the need for improving the capacity of the state to implement development schemes in such a way that residents received benefits at par with the residents of other States.

1.5.4 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 goods[4]. Apart from improving the allocation towards development expenditure[5], 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 the proportion of revenue expenditure 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 1.7** presents the trends of development expenditure relative to the aggregate expenditure of the State during 2004-09, **Table 1.8** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected Social and Economic Services during 2007-08 and 2008-09.

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[3] Absorptive capacity in this case refers to the ability of a state to implement a developmental scheme in such a way that with given resources, there is maximum benefit to the people. This is usually achieved when the designs of schemes are well planned with careful risk mitigation strategy in place, administrative costs are low, operation, maintenance, monitoring and control mechanisms are in place etc so that the state is able to effectively achieve targeted outcomes.

[4] 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.

[5] 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.

Table-1.7: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
Development Expenditure (a to c)					
a. Development Revenue Expenditure	6831 (40.25)	9229 (42.75)	11938 (45.72)	14306 (47.78)	**17978 (50.64)**
b. Development Capital Expenditure	1137 (6.70)	2012 (9.32)	5056 (19.36)	5881 (19.64)	6230 (17.55)
c. Development Loans and Advances	1125 (6.63)	1744 (8.08)	308 (1.18)	265 (0.89)	544 (1.53)
Figures in parentheses indicate percentage of aggregate expenditure					

(Source: Finance Accounts of Government of Bihar)

Table 1.8 indicates that except in the case of Power & Energy and Transport sectors there has been fall in the percentage of CE to TE, which is not a very healthy sign. In the case of salary and wages, except in the case of General Education and Health & Family Welfare, there has been a fall in the percentage of salary and wages in revenue expenditure. This could be because the Pay Commission award was not implemented during 2008-09. Details of expenditure on operation & maintenance were not readily available in the Finance Accounts.

Table 1.8: Efficiency of Expenditure Use in Selected Social and Economic Services

(*percentage*)

Social/Economic Infrastructure	2007-08		2008-09	
	Ratio of CE to TE	In RE, the share of S &W	Ratio of CE to TE	In RE, the share of S&W
Social Services (SS)				
General Education	Negligible	66.72	01	67.64
Health and Family Welfare	18	53.14	08	61.23
WS, Sanitation, & HUD	32	16.33	12	9.85
Total (SS)	07	34.50	05	32.46
Economic Services (ES)				
Agri & Allied Activities	03	30.89	01	20.42
Irrigation and Flood Control	61	63.10	62	58.61
Power & Energy	14	-	36	-
Transport	85	28.91	83	27.83
Total (ES)	**53**	**21.96**	**52**	**21.27**
Total (SS+ES)	**29**	**30.61**	**28**	**28.89**
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.				

(Source: Finance Accounts of Government of Bihar).

Development revenue expenditure increased continuously from 40 *per cent* in 2004-05 to 51 *per cent* in 2008-09. Development capital expenditure also showed an increasing trend from seven *per cent* in 2004-05 to 20 *per cent* in 2007-08 but decreased in 2008-09 to 18 *per cent*. Development expenditure on loans and advances decreased from seven *per cent* in 2004-05 to one *per cent* in 2007-08 and then increased to two *per cent* in 2008-09.

1.6 Analysis of Government Expenditure and Investments

In the post-Fiscal Responsibility and Budget Management (FRBM) framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also 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 the previous years.

1.6.1 Investment and returns

As of 31 March 2009, Government had invested Rs 832.18 crore in statutory corporations, rural banks, joint stock companies and co-operatives **(Table 1.9)**.

Table-1.9: Return on Investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rs in crore)	708.66	805.64	821.10	828.68	832.18
Return (Rs in crore)	0.04	0.04	0.04	3.19	2.14
Return *(per cent)*	0.00	0.00	0.00	0.38	0.26
Average rate of interest on Govt borrowing *(per cent)*	9.59	8.20	7.15	7.15	7.93
Difference between interest rate and return *(per cent)*	9.59	8.20	7.15	7.03	7.67

(Source: Finance Accounts of Government of Bihar)

As of March 2009, the Government had invested Rs 832.18 crore i.e.Rs 105.63 crore in statutory corporations, Rs 351.17 crore in Government Companies, Rs 3.88 crore in joint stock companies and Rs 371.50 crore in banks and societies.

Returns from these investments was merely Rs 0.04 crore per annum against investments between Rs 805.64 crore and Rs 821.10 crore in 2005-07and Rs 3.19 crore against investment of Rs 828.68 crore in 2007-08 and Rs 2.14 crore against investment of Rs 832.18 crore in 2008-09, which was merely 0.26 *per cent*. The average return on this investment was 0.21 *per cent* in the last three years while Government paid an average rate of interest of 7.41 *per cent* on its borrowings.

1.6.2 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 institutions/ organizations. **Table 1.10** presents the status of outstanding loans and advances as on 31 March 2009, interest receipts vis-à-vis interest payments during the last three years**.**

Table-1.10: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	**2006-07**	**2007-08**	**2008-09**
Opening Balance	13573.65	13881.57	14128.10
Amount advanced during the year	315.32	272.70	551.05
Amount repaid during the year	7.40	26.16	11.32
Closing Balance	**13881.57**	**14128.10**	**14667.83**
Of which Outstanding balance for which terms and conditions have been settled			
Net addition	307.92	246.54	539.73
Interest Receipts	175.99	170.71	304.57
Interest receipts as percentage of outstanding Loans and advances	1.27	1.21	2.08
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	6.96	7.27	6.83
Difference between interest payments and interest receipts (*per cent*)	5.69	6.06	4.75

(Source: Finance Accounts of Government of Bihar)

The major recipient of Government loans totaling Rs551.05 crore during 2008-09 were power projects (Rs 436.89 crore) which consumed 79.28 *per cent* of the total loans and advances paid by the Government during 2008-09. Government was providing loans and advances to the power sector without ensuring the refund and interest payment obligations thereon. Against the total outstanding loans of Rs 14668 crore, loans amounting to Rs 12290 crore was pending with power sector. Out of Rs 437 crore for power projects, Rs 99 crore was paid as arrears against bond (Rs 87 crore) and payment of interest (Rs 12 crore). Recovery of amounts aggregating Rs 15886.08 crore was overdue as of March, 2009 on account of principal and interest of loans advanced by the Government to District Boards, Municipalities and other local bodies, the State Electricity Board, private institutions, companies and individuals (principal: Rs 6206.81 crore and interest: Rs 9679.27 crore).

1.6.3 Cash Balances and Investment of Cash balances

Table 1.11 depicts the cash balances and investments made by the State Government out of cash balances available during the year.

Table-1.11: Cash Balances and Investment of Cash balances

(Rupees in crore)

Particulars	**As on 1 April 2008**	**As on 31 March 2009**	**Increase/ Decrease**
Cash Balances	-2400.20	-740.05	-1660.15
Investments from Cash Balances (a to d)	4471.06	3978.90	-492.16
a. GOI Treasury Bills	0.00	0.00	0.00
b. GOI Securities	4466.40	3974.24	-492.16
c. Securities of other State Govt.	4.66	4.66	0.00
d. Other Investments	0.00	0.00	0.00
Funds-wise Break-up of Investment from Earmarked balances (a to c)	0.0961	140.0961	140.00
a. Famine Relief Fund	0.0961	0.0961	0.00
b. Sinking Fund	-	140.00	140.00
Interest Realized	165.29	249.64	+84.35

(Source: Finance Accounts of Government of Bihar)

As per the Ways and Means Advances limits fixed by the Reserve Bank of India, the state Government had a Ways and Means Advances limit of Rs 425 crore with effect from 1 April 2008. Special Ways and Means Advance not exceeding Rs 19.12 crores with effect from 1 April 2008, Rs 18.17 crore with effect from 2 July 2008, Rs 18.38 crore with effect from 1 October 2008 and Rs 21.06 crore with effect from 1 January 2009 were made available against security of Government of India held by the state Government with effect from March 2008. States had to avail of special Ways and Means Advance @ 1 *per cent* below the bank rate before availing normal Ways and Means Advance. If even after the maximum advances are given, there is a shortfall in the minimum cash balance, the shortfall is left uncovered. Overdrafts are allowed by the bank if the state has a minus balance after availing of the maximum advance.

No Ways and Means Advance and overdraft were availed of by the Government during the last four years (2006-09).

Investments were made in Government securities (Rs 3974.24 crore) and State Government securities (Rs 4.66 crore).

1.7 Assets and Liabilities

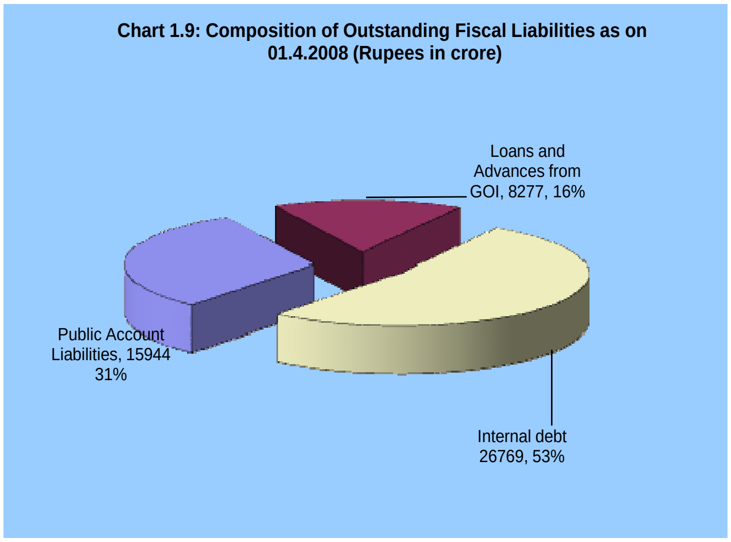
1.7.1 Growth and composition of Assets and Liabilities

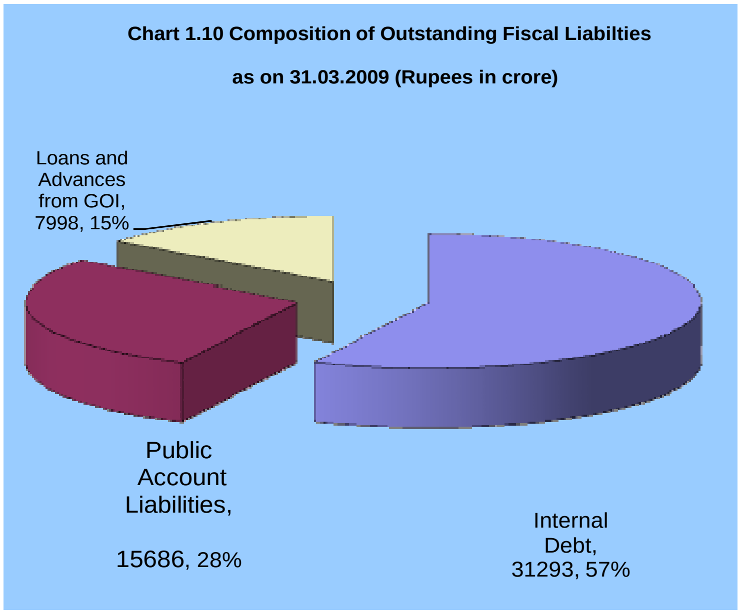
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.7** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. 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.

The Bihar Fiscal Responsibility Act, 2006 defines the total liabilities of the State as the liabilities under the Consolidated Fund of the State and the Public Account of the State, which includes loans and advances from the Central Government, borrowings by public sector undertakings and special purpose vehicles and other equivalent instruments including guarantees where the principal/ or interest are to be serviced out of the State budget.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.3.** However, the composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Chart 1.9** and **1.10.**





The growth of fiscal liability increased from 3.87 *per cent* (2007-08) to 7.82 *per cent* (2008-09) and the ratio of fiscal liabilities to GSDP decreased from 58.02 *per cent* 2004-05 to 41.69 *per cent* during the year 2008-09. The liabilities stood at 1.67 times the revenue receipts and 7.50 times the states' own resources at the end of 2008-09. The buoyancies of these liabilities with respect to GSDP during the year were 0.31 *per cent*. Government constituted a Sinking Fund of Rs 140 crore for amortization of loans raised by the Government. Fiscal liabilities increased from Rs 42483crore in 2004-05 to Rs 54977 crore in 2008-09, in which the components of internal debt oscillated between 52 to 57 *per cent* during 2005-09.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of defaults by borrowers for whom the guarantee is extended. As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and the outstanding guarantees for the last three years is given in **Table 1.12.**

Table-1.12: Guarantees given by the Government

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09	
			BE	Actual
Maximum amount guaranteed	1537.73	1537.73	--	1547.73
Outstanding amount of guarantees	607.76	516.31	--	704.23
Percentage of maximum amount guaranteed to total revenue receipts	6.66	5.45	--	4.69

(Source: Finance Accounts of Government of Bihar)

Capital was raised by the Bihar State Financial Corporation (Rs 39.95 crore), loans, debenture, bonds etc. were raised by Statutory Corporations and Boards (Rs 839.05 crore), autonomous bodies (Rs 36.18 crore) Government Companies (Rs 84.20 crore), Joint Stock Companies (Rs 2.24 crore), cooperative banks and Other Societies (Rs 546.11 crore). No law under Article 293 of the Constitution has been passed by the State Legislature laying down the limit within which the Government may give guarantees on the security of the Consolidated Fund of the State.

1.7.4 Off - Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in **Table 1.12**, the State guaranteed loans availed of by Government companies/corporations. These companies/ corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the State Government projects that funds for these programmes would be met out of the resources mobilized by these companies/corporations outside the State budget, in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government termed as 'off-budget borrowings'.

There were no off-budget borrowings in respect of the State Government.

1.8 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability[6] of the State. This section

[6] Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP 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 rise in fiscal deficit should match the increase in the capacity to service the debt.

assesses the sustainability of debt of the State Government in terms of debt stabilization[7]; sufficiency of non-debt receipts[8]; net availability of borrowed funds[9]; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.13** analyzes the debt sustainability of the State according to these indicators for the period of three years beginning from 2006-07.

Table 1.13: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Surplus)	8396.51	1366.64	11328.78
Sufficiency of Non-debt Receipts (Resource Gap)	679.00	1318.00	-804.00
Net Availability of Borrowed Funds	-692.00	-1496.00	93
Burden of Interest Payments (IP/RR Ratio)	0.15	0.13	0.11
Maturity Profile of State Debt (In Years)*			
0 - 1	28	27	23
1 – 3	10	12	12
3 – 5	16	14	14
5 – 7	02	02	02
7 and above	-	-	05

(Source: Finance Accounts of Government of Bihar)

Since Bihar enjoyed a primary surplus in 2008-09 and also since GSDP growth was very high (25.42), the debt stabilization indicator showed no cause for concern. However, during the current year, incremental non debt receipts could not cover incremental expenditure. Other indicators such as net availability of borrowed funds being positive and a manageable interest payments/ revenue receipt ratio also showed that Bihar's debt repayment may not be a problem provided this trend continues.

1.9 Fiscal Imbalances

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[7] A necessary condition for stability states that if the rate of growth of 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, the debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

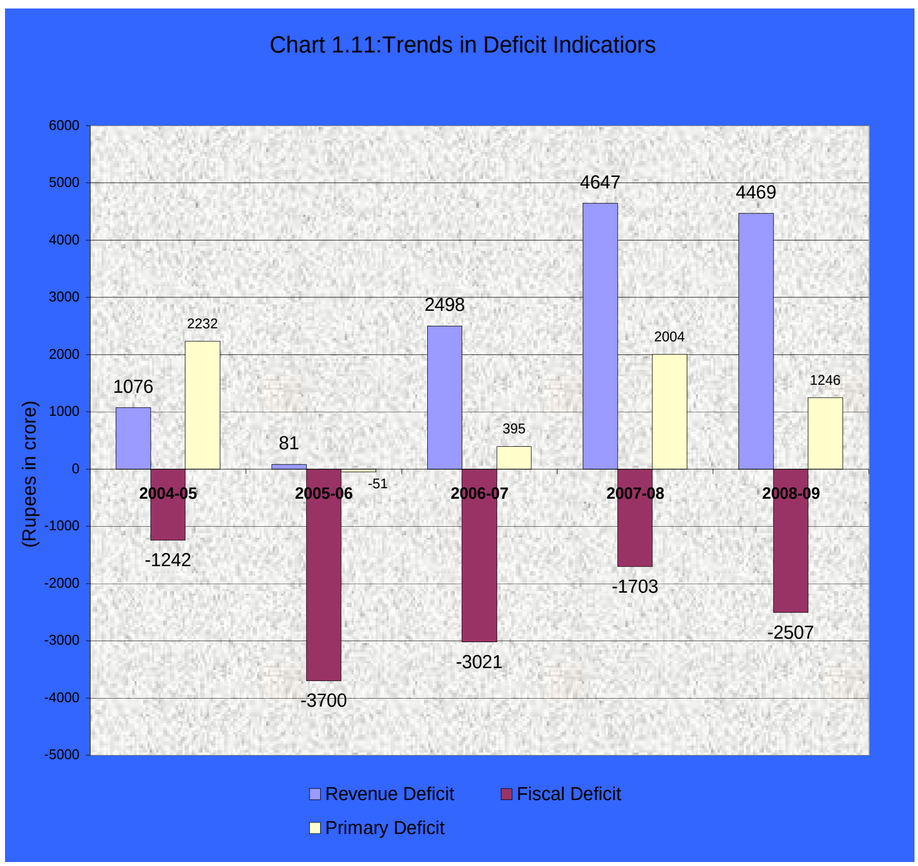
[8] Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental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

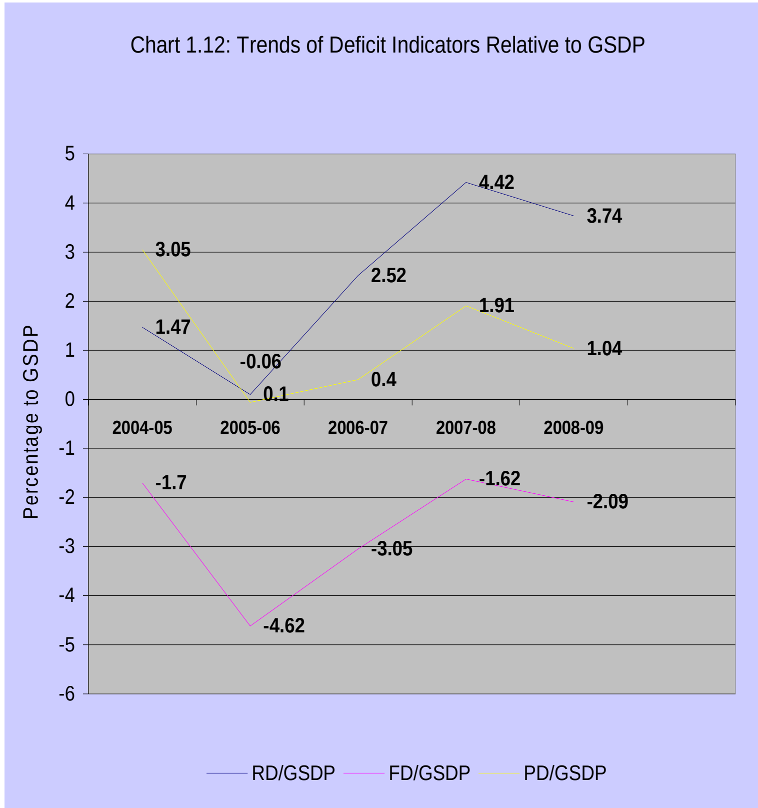
[9] Defined as the ratio of the debt redemption (principal + interest payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

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 the FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends of Deficits

Chart 1.11 and **1.12** presents the trends in deficit indicators over the period 2004-09.





The State was running in a revenue surplus from 2004-05 with wide variations but during 2008-09 revenue surplus decreased by Rs 178 crore over previous year. The state achieved actual deficit targets as laid down in its FRBM/TFC much before timeline indicated. Fiscal deficit increased from Rs 1703 crore in 2007-08 to Rs 2507 crore in 2008-09 and its ratio with GSDP increased from 1.62 *per cent* to 1.90 *per cent*. Decrease in the ratio of fiscal deficit was higher than the projection made in the FRBM. Primary surplus of Rs 2004 crore (2007-08) decreased to Rs 1246 crore in the current year.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The state experienced revenue surplus in 2004-05 and since then, it has maintained a surplus although with wide variations. The revenue surplus decreased from Rs 4647 crore in 2007-08 to Rs 4469 crore in 2008-09 due to the fact that revenue receipts increased by Rs 4770.97 crore (16.91 *per cent*) during 2008-09. Revenue expenditure increased by Rs 4469.11 crore (21 *per cent*) over the previous year, resulting in a decrease of Rs 178 crore in the revenue surplus in 2008-09. The percentage of market borrowings was 150 per cent of the fiscal deficit.

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.14.**

Table1.14: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit		**-1241.80**	**-3700.15**	**-3020.91**	**-1703.46**	**-2506.97**
1	Revenue Deficit/Revenue Surplus	1075.73	80.71	2498.14	4646.85	4469.11
2	Net Capital Expenditure	-1204.52	-2083.90	-5211.13	-6103.78	-6436.35
3	Net Loans and Advances	-1113.01	-1696.96	-307.92	-246.53	-539.73
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	1596.90	343.13	-412.72	-779.56	3757.12
2	Loans from GOI	-1068.54	-486.04	-314.15	39.75	-278.81
3	Special Securities Issued to NSSF	2404.20	2446.59	2040.69	661.59	529.08
4	Loans from Financial Institutions	1646.30	485.92	-314.15	58.26	238.22
5	Small Savings, PF etc	403.50	365.02	395.05	268.40	144.41
6	Deposits and Advances	-39.17	414.56	869.48	1700.04	-690.52
7	Suspense and Misc	-4420.89	-39.91	583.65	-2190.35	395.96
8	Remittances	6.26	11.34	-63.14	618.30	-221.57
9	Others	76.75	439.62	nil	-44.60	293.24
10	Overall Surplus/Deficit	-676.49	298.88	97.01	-1371.62	1660.14
**All these figures are net of disbursements/outflows during the year*						

(Source: Finance Accounts)

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit 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, persistently high ratio of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit **(Table 1.15)** 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 1.15: Primary deficit/Surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) /surplus (+)	Primary deficit (-) /surplus (+)
1	**2**	**3**	**4**	**5**	**6 (3+4+5)**	**7 (3-6)**	**8 (2-6)**
2004-05	15729	11164	1205 (09)	1128	13497	-2333	+2232
2005-06	17888	14107	2084 (12)	1748	17939	-3832	-51
2006-07	23090	17169	5211 (23)	315	22695	-5526	+395
2007-08	28236	19856	6104 (23)	272	26232	-6376	+2004
2008-09	32992	24759	6436 (20)	551	31746	-6987	+1246

(Source: Finance Accounts)

Non-debt receipts of the state were enough to meet the primary expenditure requirements in the revenue account and actually left some receipts to meet the expenditure under capital account. The surplus non-debt receipt was however not enough to meet the expenditure requirement under capital account resulting in primary deficit in 2005-06. Non-debt receipts exceeded the primary expenditure during 2005-09, resulting in the primary surplus during the year.The fiscal deficit position accompanied by an increase in interest payment (Rs 46 crore) reduced the primary surplus from Rs 2004 crore to Rs 1246 crore during 2008-09.

1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which deficit correction is achieved by the State on account of improvements in its own resources which is an indicator of the durability of the correction in deficit indicators. **Table 1.16** presents the changes in revenue receipts of the State and the correction of the deficit during the last three years.

Table-1.16: Change in Revenue Receipts and Correction of Deficit

(*Per cent* of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE*	Actual
Revenue Receipts (a to d)	**23083**	**28210**	**33550.98**	**32981**
a. State's Own Tax Revenue	4033	5086	5258.88	6173
b. State's Own Non- tax Revenue	511	526	421.83	1153
c. State's Share in Central Taxes and Duties	13292	16766	19094.31	17693
d. Grants-in-Aid	5247	5832	8775.96	7962
Revenue Expenditure	**20585**	**23563**	**28937.89**	**28512**
Revenue Deficit/Surplus	**-2498**	**-4647**	**-4613**	**-4469**
Fiscal Deficit/Surplus	**3021**	**1703**	**3325**	**2507**

*BE is a gross figure

(Source: Finance Accounts)

Revenue receipts increased from Rs 23083 crore in 2006-07 to Rs 32981 crore in 2008-09 and revenue expenditure also increased from Rs 20585 crore to Rs 28512 croe in 2008-09. But these were still less than the budget estimates of current year. Revenue surplus increased from Rs 2498 crore in 2006-07 to Rs 4647 crore in 2007-08 then decreased to Rs 4469 crore in 2008-09 but this was also less than projected budget estimates. Fiscal deficit decreased from Rs 3021 crore in 2006-07 to Rs 1703 crore in 2007-08 but further increased to Rs 2507 crore in 2008-09 but it was also less than the budget estimates.

1.10 Conclusion

The target to reduce revenue deficit to zero as per the Twelfth Finance Commission's recommendations was achieved and the State was running into revenue surplus. Revenue receipts increased by Rs 4770.97 crore, of which Rs 3056.67 crore, (64 *per cent*), was due to grants-in-aid and share of Union Taxes received from Government of India.

During 2007-08 and 2008-09, Rs 3355.61 crore and Rs 6434.66 crore respectively were provided directly to State implementing agencies outside the State budget.

Government disbursed loans and advances without ensuring refunds and interest payment obligation thereon. Loans amounting to Rs 12290 crore were pending from the power sector against total outstanding loans of Rs 14668 crore. The average return on investments made was 0.21 *per cent* in 2006-09, while the Government paid an average interest rate of 7.21 *per cent* on its borrowings during the period 2006-09. There were no off-budget borrowings.

Fresh debt receipts were being used to discharge the States' past debt obligations during 2006-08. However, the net funds available after providing the interest and repayment of debt was Rs 5243 crore (26 *per cent*) in 2008-09. The fiscal deficit increased due to increase of capital expenditure and disbursement of loan and advances.

1.11 Recommendations

- The Government may institute a mechanism for centralized monitoring of utilization of funds released directly to State implementing agencies by the Government of India.
- Increasing fiscal liabilities accompanied by negligible rates of return on Government investments and inadequate interest cost recovery on loans and advances might lead to a situation of unsustainable debt in the medium to long run unless suitable measures are initiated to compress Non-Plan revenue expenditure and mobilize additional resources, both through tax and non-tax sources.