

Chapter 1

Finances of the State Government

1 Introduction

This chapter provides a broad perspective of the finances of the Government of Madhya Pradesh 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 and form of Government Accounts and the layout of the Finance Accounts are depicted in **Appendix 1.1-Part A and B**. The methodology adopted for the assessment of the fiscal position and norms/ceilings prescribed by the Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 are depicted in **Appendix-1.2- Part A, B and C**.

In terms of the Madhya Pradesh Reorganization Act 2000 (No.28 of 2000), 16¹ districts of the erstwhile State of Madhya Pradesh formed the new State of Chhattisgarh on 1 November 2000. 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 are carried out in accordance with the provisions of the Act². The actual progress achieved in this direction is indicated in **Appendix-1.1-Part C**.

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 Part-A** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

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

Table 1.1 Summary of Current Year's Fiscal Transactions
(Rupees in crore)

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
Section-A: Revenue					Non-Plan	Plan	Total
30,688.74	Revenue Receipts	33,577.21	25,601.11	Revenue expenditure	21,892.29	7,621.59	29,513.88
12,018.18	Tax revenue	13,614.05	9,354.35	General services	10,126.15	36.19	10,162.34
2,738.19	Non-tax revenue	3,342.86	8,145.46	Social services	6,005.84	4,140.10	10,145.94
10,202.96	Share of Union Taxes/ Duties	10,766.59	6,537.46	Economic services	4,211.83	3,219.33	7,431.16
5,729.41	Grants from Government of India	5,853.71	1,563.84	Grants-in-aid and Contributions	1,548.47	225.97	1,774.44
Section-B: Capital							
11.07	Misc. Capital Receipts	24.00	6,832.70	Capital Outlay	209.70	6,503.45	6,713.15
105.24	Recoveries of Loans and Advances	53.62	1,154.88	Loans and Advances disbursed	1184.28	677.18	1,861.46
1.79	Inter-State settlement	0.79	2.06	Inter-State settlement	--	--	0.73
3,370.95	Public Debt receipts*	6,552.97	1,677.00	Repayment of Public Debt*	--	--	1,961.01
--	Contingency Fund	--	--	Contingency Fund	--	--	--
39,895.93	Public Account receipts	46,460.26	39,423.29	Public Account disbursements	--	--	45,988.97
2,409.77	Opening Cash Balance	1,792.45	1,792.45	Closing Cash Balance			2,422.10
76,483.49	Total	88,461.30	76,483.49	Total	23,286.27	14,802.22	88,461.30

*Excluding net transactions under Ways and Means advances and overdrafts.
(Source: State Finance Accounts of the respective years)

The following are the major changes during 2008-09 over the previous year:

- Revenue receipts increased by Rs 2,888 crore (nine *per cent*), mainly due to increase in the State's own tax revenue by Rs 1,596 crore (13 *per cent*), non-tax revenue by Rs 605 crore (22 *per cent*), State's share of Union taxes and duties by Rs 563 crore (five *per cent*) and grants from Government of India (GOI) by Rs 124 crore (two *per cent*). The State also received debt relief of Rs 363.06 crore under Debt Consolidation and Relief Facility (DCRF) from GOI.
- Revenue expenditure increased by Rs 3,913 crore (15 *per cent*) {(Non-Plan: Rs 3,097 crore (17 *per cent*) and Plan: Rs 816 crore (12 *per cent*)} and Capital expenditure decreased by Rs 120 crore (two *per cent*) {(Non-Plan: Rs 112 crore (-34.78 *per cent*) and Plan: Rupees eight crore (-0.12 *per cent*)}.
- The recovery of loans and advances decreased to Rs 54 crore (49 *per cent*) during the current year from Rs 105 crore in the previous year mainly under Loans for Miscellaneous General Services (Rs 23 crore) and Industries and Minerals (Rs 45 crore), partly offset by increase under Water Supply, Sanitation and Urban Development (Rs 15 crore) and loans to Government Servants (Rupees three crore). Disbursement of loans and advances by the State Government increased by Rs 706 crore, mainly on account of loans under power projects (Rs 1,055 crore) and Transport (Rs 19 crore), partly offset by decrease under Water Supply, Sanitation, Housing and Urban

Development (Rs 103 crore), Miscellaneous General Services (Rs 231 crore) and Agriculture and Allied Activities (Rs 33 crore).

- Public debt receipts and repayments increased by Rs 3,182 crore (94 *per cent*) and Rs 284 crore (17 *per cent*) respectively in 2008-09 over the previous year. The increase in public debt receipts was mainly due to increase in internal debt by Rs 2,567 crore and loans and advances by GOI (Rs 615 crore).
- Public Account receipts and disbursements increased by Rs 6,564 crore and Rs 6,566 crore respectively in 2008-09 relative to the previous year resulting in a net decrease of Rupees two crore.
- As a result of inflow/outflow of the funds stated above, the cash balances of the State at the close of 2008-09 increased by Rs 630 crore over the previous year.

1.1.2 Review of the fiscal position

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

An increase of 15.28 *per cent* (Rs 3,913 crore) in revenue expenditure during 2008-09 in comparison to that of 9.41 *per cent* (Rs 2,888 crore) in revenue receipts resulted in a decline in the revenue surplus from Rs 5,088 crore in 2007-08 to Rs 4,063 crore in 2008-09. Given the decline of Rs 1,025 crore in the revenue surplus and Rs 39 crore in non-debt capital receipts during the year accompanied by decline of Rs 120 crore in capital expenditure and increase of Rs 705 crore in the disbursement of loans and advances including inter-State settlement, there was an increase of Rs 1,649 crore in the fiscal deficit in 2008-09 over the previous year. Given the increase in fiscal deficit (Rs 1,649 crore) as well as in interest payments (Rupees one crore), the primary surplus of Rs 1,407 crore in 2007-08 became a primary deficit of Rs 241 crore in 2008-09. The fiscal performance of the State vis-à-vis FRBM targets and those framed in the Mid-Term Fiscal Policy Statement (MTFPS) for the year 2008-09 is presented in **Table 1.2** below:

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Table 1.2

Fiscal forecasts	FRBM Targets	Projection as per MTFPS	Actual
Revenue Deficit (-)/ Surplus (+) (Rupees in crore)	To be wiped out by 2008-09	(+) 2,840	(+) 4,063
Fiscal Deficit (-)/ Surplus (+) (Rupees in crore)	To reduce to not more than 3 <i>per cent</i> of GSDP by 2008-09 (4876)	(-) 4,741 FD to be 3 <i>per cent</i> of GSDP	(-) 4,433 (2.72 <i>per cent</i> of GSDP)
Total Fiscal Liabilities (including guarantees)	40 <i>per cent</i> of GSDP by 31 March 2015	43.65 <i>per cent</i> of GSDP	38.37 <i>per cent</i> of GSDP
Outstanding Guarantees	Not to exceed 80 <i>per cent</i> of the total RR of preceding year	73.19 <i>per cent</i> of RR of preceding year	6.29 <i>per cent</i> * of RR of preceding year

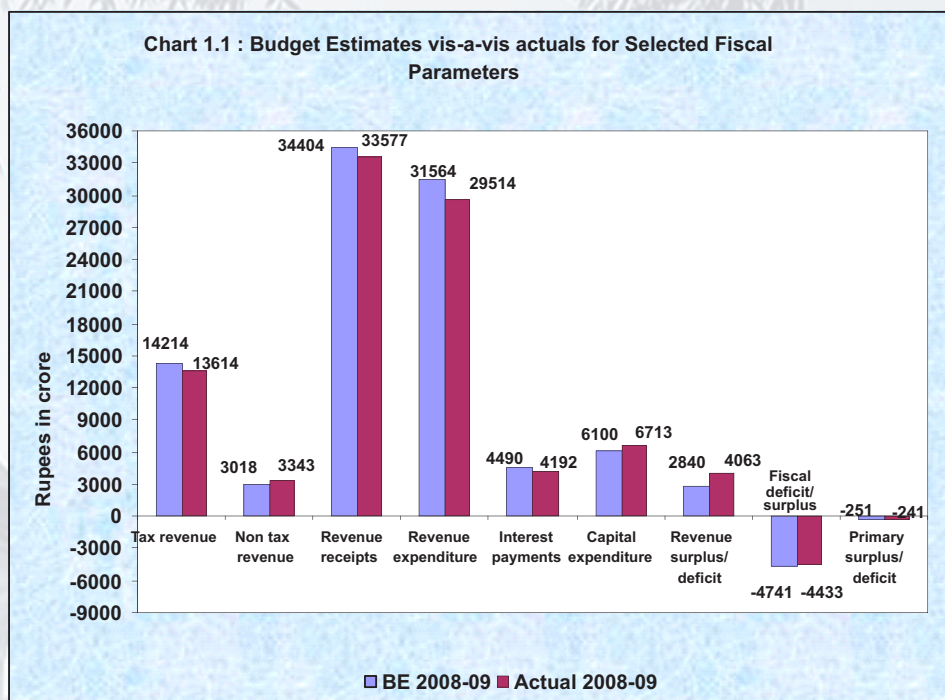
*To the extent information was available in Finance Accounts.

(Source: Statement laid before the legislature under FRBM Act during 2008-09 & State Finance Accounts of the respective years)

The table reveals that the State Government had achieved revenue surplus four years ahead of the scheduled period and contained the fiscal deficit well within the limit of three *per cent* of GSDP prescribed in the FRBM targets and the projections of MTFPS. The total fiscal liabilities (including guarantees) to GSDP ratio at 38.37 *per cent* was within the FRBM target to be achieved by 31 March 2015 but was significantly less than the projected 44 *per cent* in MTFPS. The outstanding guarantees during the year were only 6.29 *per cent* of the revenue receipts of the preceding year as against the MTFPS projection of 73 *per cent* and the FRBM target of 80 *per cent* for the year.

The actual tax revenue and non-plan revenue expenditure (NPRE) in 2008-09 were more than the normatively assessed level of TFC but less than the projection made by the State Government in its MTFPS while that of non-tax revenue was more than both the assessed levels of TFC and MTFPS.

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



(Source: State Finance Accounts and Budget Estimates 2008-09)

The key fiscal indicators viz revenue surplus, fiscal deficit and primary deficit showed improvement with reference to the budget estimates (BE). Revenue expenditure and interest payments were well within the BE while capital expenditure and non-tax revenue were more than the BE. Tax revenue was less than the BE mainly due to less receipt under taxes and duties on electricity (Rs 807 crore), stamp duty and registration fees (Rs 361 crore) and taxes on vehicles (Rs 227 crore), partly offset by more receipts under land revenue (Rs 212 crore), state excise (Rs 227 crore), taxes on sales, trades etc. (Rs 243 crore) and taxes on goods and passengers (Rs 133 crore). Capital expenditure was more than the BE due to more expenditure under Major Irrigation (Rs 398 crore) and Power Projects (Rs 298 crore), partly offset by less expenditure under Medical and Public Health (Rs 113 crore).

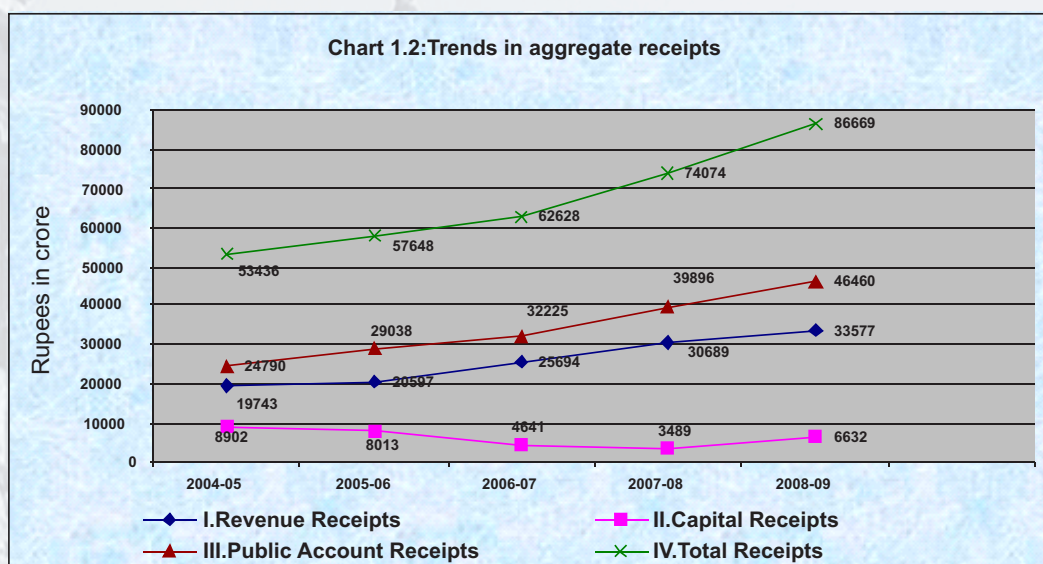
1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

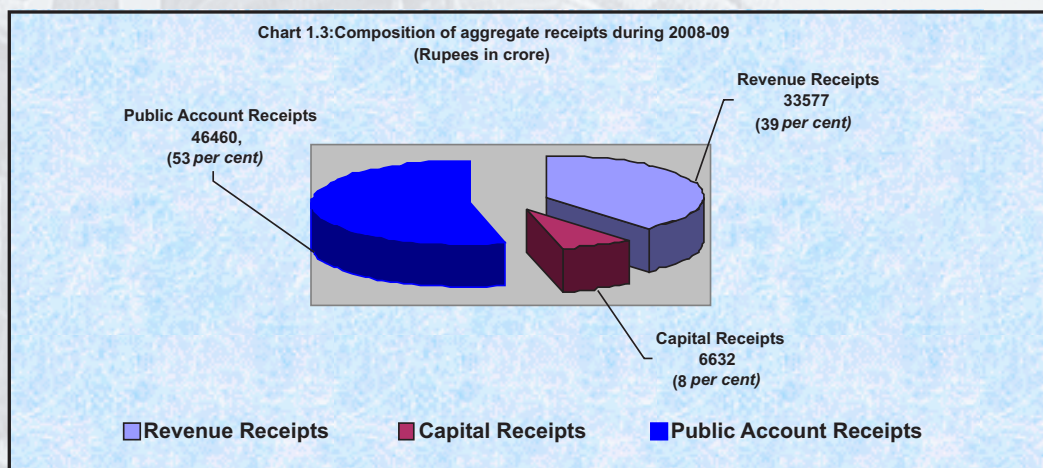
Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of

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tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans and 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 of 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.



(Source: State Finance Accounts of the respective years)



(Source: State Finance Accounts of the respective years)

The revenue, capital and Public Account receipts constituted 39, eight and 53 *per cent* of the total receipts respectively during 2008-09. The total receipts of the State increased by 62 *per cent* during 2004-09, of which revenue receipts increased by 70 *per cent* while the capital receipts decreased by 25 *per cent*. The relative share of revenue receipts in total receipts increased from 36.94 *per cent* in 2004-05 to 38.74 *per cent* in 2008-09 and the share of capital receipts in total receipts decreased from 16.65 *per cent* in 2004-05 to 7.65 *per cent* in 2008-09, mainly due to a decline in debt receipts. The increase in public debt receipts from Rs 3,371 crore (4.55 *per cent*) in 2007-08 to Rs 6,553 crore (7.56 *per cent*) in 2008-09 was due to an increase in market loans and GOI loans. Although the receipts under the Public Account increased at an annual growth rate of 17.48 *per cent* during the period 2004-09, their share in the total receipts of the State ranged between 46 *per cent* in 2004-05 and 53 *per cent* during 2008-09. The revenue buoyancy decreased from 2.13 in 2007-08 to 0.67 in 2008-09 mainly due to the mismatch between the growth rates of revenue receipts and GSDP.

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 State implementing agencies³ for the implementation of various schemes/programmes in the social and economic sectors. 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 on availability of aggregate resources, funds directly transferred to State implementing agencies during 2008-09 are presented in **Table 1.3**:

3

State implementing agencies include any organizations/institutions including non-governmental organizations which are 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, State Health Mission for NRHM etc.

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Table 1.3: Funds Transferred Directly to State Implementing Agencies

(Rupees in crore)

Sl. No	Implementing Agency(Department) in the State	Name of the Programme/ Scheme	Opening Balance on 1 April 2008	2008-09					Closing balance on 31 March 2009
				Central Share	State Share	Misc.	Total receipts during the year	Expenditure during the year	
1.	Department of School Education and Literacy	Rajiv Gandhi Shiksha Mission (SSA)	583.90	811.74	462.17	5.00	1,278.91	1,351.43	511.38
2.	Department of School Education and Literacy	National Programme of Education for Girls at Elementary Level (NPEGEL)	35.75	19.47	17.29	0.75	37.51	127.06	-53.80
3.	Department of School Education and Literacy	Kasturba Gandhi Balika Vidyalaya (KGBV)	27.45	24.48	3.68	0.50	28.66	52.44	3.67
4.	Ministry of New and Renewable Energy	M.P. Urja Vikas Nigam Ltd.	3.60	6.60	--	--	6.60	8.79	1.41
5.	Department of Rural Development	M.P. Rural Road Development Authority (MPRRDA)	699.36	1,843.70	37.32	51.15	1,932.17	2,199.21	432.32
6.	Department of Commerce	M.P. Laghu Udyog Nigam Ltd.	--	0.46	--	--	0.46	--	0.46
7.	Department of Health and Family Welfare	RCH/NRHM Immunisation	0.40	4.79	0.90	--	5.69	4.79	1.30
8.	Department of Health and Family Welfare	Rashtriya Kushth Unmoolan Karyakram	0.55	2.73	--	0.18	2.91	1.71	1.75
9.	Department of Health and Family Welfare	Integrated Disease Project (IDSP)	3.80	--	0.60	0.08	0.68	2.08	2.40
10.	Department of Health and Family Welfare	Revised National T.B. Control Programme (RNTBCP)	2.18	8.10	--	0.10	8.20	8.04	2.34
Total			1,356.99	2,722.07	521.96	57.76	3,301.79	3,755.55	903.23

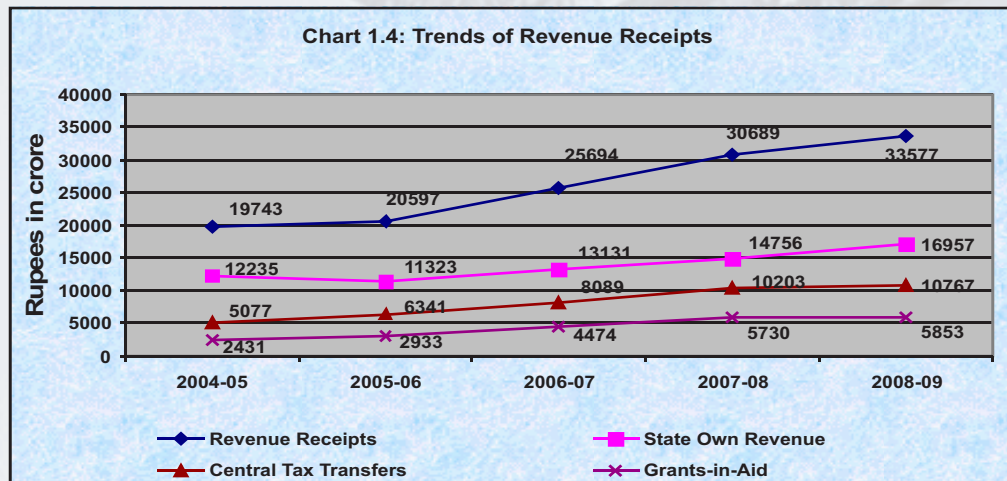
(Source: Information furnished by A.G. (A&E) Madhya Pradesh)

The above table indicates that there was an opening balance of Rs 1,357 crore as on 1 April 2008 in respect of funds directly received by the State implementing agencies for implementation of various schemes/ programmes. During 2008-09, these agencies received Rs 3,302 crore (Central share: Rs 2,722 crore, State share: Rs 522 crore) and others (Rs 58 crore) and booked an expenditure of Rs 3,756 crore, leaving a closing balance of Rs 903 crore as on 31 March 2009. The State's receipts and expenditure during 2008-09 as well as other fiscal variables/ parameters derived from them are underestimated to that extent. Considering the impact of receipts and expenditure during 2008-09 of these agencies, the revenue surplus would have declined and the fiscal and primary deficits would have increased to the extent of Rs 454 crore. The major receipts and expenditure during 2008-09 were noticed under the Rajiv Gandhi Shiksha Mission (SSA) and M.P. Rural Road Development Authority (MPRRDA).

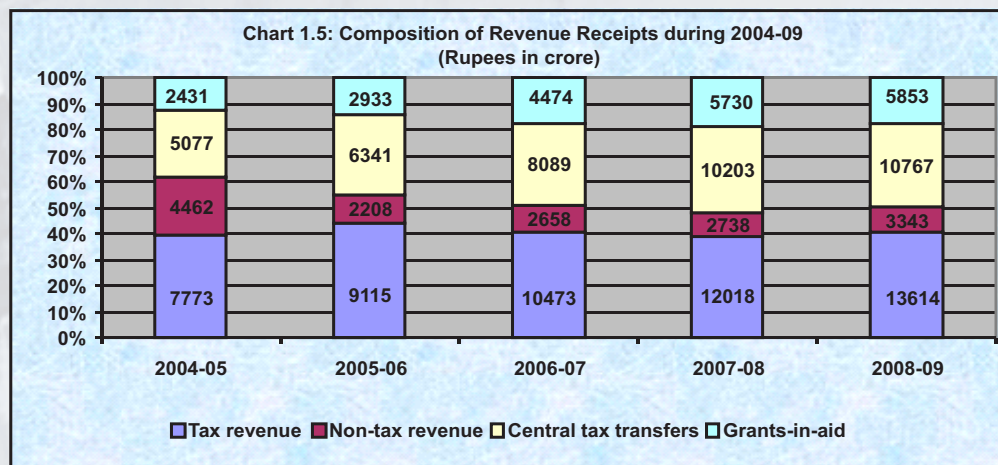
As these funds are not routed through State Government accounts, the direct transfer of funds from the Union Government to the State implementing agencies runs the risk of oversight of maintenance of accounts and utilisation of funds by these agencies. In the absence of uniform accounting practices followed by all these agencies, proper documentation and timely reporting about the status of expenditure by these said implementing agencies was not in place.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the States 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 **Charts 1.4 and 1.5** respectively.



(Source: State Finance Accounts of the respective years)



(Source: State Finance Accounts of the respective years)

The revenue receipts of the State consistently increased at an average annual growth rate of 14.01 *per cent* from Rs 19,743 crore in 2004-05 to Rs 33,577 crore in 2008-09. While 50.5 *per cent* of the revenue receipts during 2008-09 had come from the State's own resources comprising tax and non-tax revenue, the balance 49.5 *per cent* was contributed by Central tax transfers and grants-in-aid together. The relative shares of the State own tax and non-tax

revenue exhibited relative stability during the period 2004-09 (except in 2004-05 in respect of non-tax revenue) while that of Central tax transfers and grants-in-aid showed an increasing trend except in 2008-09. Of the total increase of Rs 2,888 crore in the revenue receipts of the State during 2008-09, Rs 687 crore (24 *per cent*) was contributed by Central transfers and the remaining Rs 2,201 crore (76 *per cent*) by the State's own resources. The trends of revenue receipts relative to GSDP are presented in **Table 1.4** below:

Table 1.4: Trends of revenue receipts relative to GSDP

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue receipts (RR)	19,743	20,597	25,694	30,689	33,577
Rate of growth of RR (<i>per cent</i>)	38.17	4.33	24.75	19.44	9.41
RR/GSDP (<i>per cent</i>)	18.48	17.61	19.68	21.54	20.66
Buoyancy Ratios⁴					
Revenue buoyancy with reference to GSDP	9.89	0.46	2.12	2.13	0.67
State's Own Tax Buoyancy with reference to GSDP	3.75	1.82	1.28	1.61	0.95
Revenue Buoyancy with reference to State's own taxes	2.63	0.25	1.66	1.32	0.71

(Source: State Finance Accounts of the respective years and information furnished by Directorate of Economic and Statistic Government of Madhya Pradesh)

The revenue receipts relative to GSDP, indicate the adequacy and accessibility of State to resources which increased from 18.48 *per cent* in 2004-05 to 21.54 *per cent* in 2007-08 but decreased to 20.66 *per cent* in 2008-09.

The revenue receipts as well as the State's own tax buoyancies declined in 2008-09 as compared to the previous year primarily on account of the fall in the rates of growth of both revenue receipts and the State's own taxes and the higher growth of GSDP during the current year. A steep decline by about 10 percentage points in the rate of growth of revenue receipts along with a decline of about 1.5 *per cent* in the growth of the State's own taxes in 2008-09 as compared to the previous year led to a fall in revenue buoyancy with reference to the State's own taxes in the current year.

⁴ 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.

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts, 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 gross collection in respect of major taxes and duties as well as the components of non-tax receipts vis-à-vis budget estimates, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2004-05 to 2008-09 along with the respective all India average are presented in **Appendix 1.5**.

During 2008-09, the percentage of expenditure on the collection of State excise duty, Stamp duty and registration fees was considerably higher than the all India average for 2007-08 (this needs to be looked into by the Government), while that of taxes on sales trades etc. was comparable with the all India average for 2007-08. In the case of State excise, the reason for excess expenditure on cost of collection was as the department paid cost of liquor to the manufacturers from the budget provisions, expenditure for which was Rs 398.56 crore during 2008-09. During 2008-09, the gross collection was more than the BE in respect of taxes on sales, trades etc., State excise, non-ferrous mining and metallurgical industries and forestry and wild life and less than BE in respect of taxes on vehicles, mainly on account of receipts under the State Motor Vehicles Taxation Acts and Stamp duty and Registration fees under non judicial stamps and registration fees. The current levels of cost recovery of operation and maintenance (O&M) expenses (ratio of non tax revenue receipts to O&M expenses) were 46.84 for education, 4.10 for Health and Family Welfare, 0.24 for Water Supply, Sanitation, Housing and Urban Development, 109.16 for Agriculture and Allied Activities, negligible for Power, 1.14 for Irrigation and Flood Control and 0.01 for Transport. This indicated that O&M expenses on Water Supply, Sanitation, Housing and Urban Development, Power and Transport sectors were more than the non-tax revenue in these sectors.

Tax Revenue

Taxes on sales, trades etc. were the major contributors (50 *per cent*) of the State's own tax revenue followed by State excise (17 *per cent*), Stamps and Registration fees (11 *per cent*), taxes on goods and passengers (10 *per cent*) and taxes on vehicles (six *per cent*) during 2008-09. There was a growth of 13 *per cent* in taxes on sales, trades etc., 24 *per cent* in State excise, 46 *per cent* in taxes on goods and passengers and a decline of 45 *per cent* in growth of taxes and duties on electricity and 3.5 *per cent* in stamps and registration fees in 2008-

09 over the previous year. The increase in receipts under taxes on sales, trades etc. was mainly due to introduction of VAT with effect from 2006-07. The increase in State excise receipts was mainly under country spirits (Rs 533 crore) and foreign liquor and spirit (Rs 396 crore), which was partly offset by decrease in receipts under country fermented liquors (Rs 210 crore) and the residual head 'Other Receipts' (Rs 268 crore). The increase of Rs 417 crore under taxes on goods and passengers was mainly under the head 'Tax on entry of goods in local areas'. The decrease under Stamps and Registration fees was because of less receipts under the heads 'Stamps Non-judicial' (Rs 50 crore) and 'Registration fees' (Rs 286 crore), which was partly offset by enhanced receipts under the head Stamps judicial (Rs 283 crore). The decrease under taxes and duties on electricity was mainly under the heads 'Taxes on Consumption and Sale of Electricity' (Rs 207 crore) and Other Receipts (Rs 50 crore). **Table-1.5** below shows the trends of the composition of tax revenue of the State during 2004-09:

Table 1.5 : Tax Revenue

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Taxes on Sales, Trades etc	3,913	4,508	5,261	6,045	6,843
State Excise	1,193	1,370	1,547	1,854	2,302
Stamps and Registration fees	789	1,009	1,251	1,532	1,479
Taxes on Vehicles	489	556	634	703	773
Land Revenue	47	77	132	129	339
Taxes on goods and passengers	468	579	745	916	1,333
Other Taxes	874	1,016	903	839	545*
Total	7,773	9,115	10,473	12,018	13,614

* Other taxes include taxes and duties on electricity (Rs 343 crore), other taxes on income and expenditure (Rs 172 crore), other taxes and duties on commodities and services (Rs 20 crore) and hotel receipt tax (Rs 10 crore).

(Source: State Finance Accounts of the respective years)

Non Tax Revenue

Non-tax revenue increased by Rs 605 crore from Rs 2,738 crore in 2007-08 to Rs 3,343 crore in 2008-09, mainly due to increase in receipt under Education, Sports, Art and Culture (Rs 305.22 crore), Non-Ferrous Mining and Metallurgical Industries (Rs 235.69 crore) and Forestry and Wildlife (Rs 76.71 crore), partly offset by decrease of Rs 43.78 crore in interest receipts. Non-tax revenue of Rs 3,343

crore during 2008-09 included debt relief of Rs 363.06 crore and thus, the actual cash based non-tax revenue was Rs 2,980 crore. Of the non-tax revenue sources, Non-Ferrous Mining and Metallurgical Industries (41 *per cent*), Forestry and Wildlife (21 *per cent*), Miscellaneous General Services which included booking of debt waivers of Rs 363.06 crore received for the current year (11 *per cent*), Education, Sports, Art and Culture (10 *per cent*) and interest receipts, dividend and profits (seven *per cent*) were the major contributors during 2008-09.

The actual receipts under the State's tax revenue and non-tax revenue vis-à-vis assessments made by TFC and the State government during 2008-09 are given in **Table 1.6** below:

Table 1.6 Non Tax Revenue

(Rupees in crore)

	Assessments made by TFC	Projections by State Government in MTFPS	Actuals
Tax Revenue	13,526	14,214	13,614
Non-Tax Revenue	2,957	3,018	3,343

(Source : State Finance Accounts of the respective year & Statement laid before the legislature under F.R.B.M. Act during 2008-09 and T.F.C. recommendation 2005-10)

Actual realization under tax revenue was slightly higher than the assessment made by TFC (0.65 *per cent*) but lower than the MTFPS projection (4.22 *per cent*). Although the actual non-tax revenue was higher than the projections made by TFC and in MTFPS, higher collection was mainly due to a contra-entry of the debt waiver of Rs 363.06 crore received under Debt Consolidation and Relief Facility as per the recommendations of TFC as receipts under the head 'Miscellaneous General Services'.

1.3.2 Loss of Revenue due to evasion of Taxes, Write off / Waivers and Refunds

About 8379 cases (Sales tax: 467, State excise:38 and Stamp duty and registration fees:7874) of evasion of taxes were pending as on 31 March 2009, while 1671 refund cases involving Rs 26.67 crore were outstanding at the end of the year 2008-09 as reported by the Sales Tax, State Excise and Stamp Duty and Registration Fee Departments. Details of outstanding refund cases are given in **Table 1.7** below:

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Table: 1.7. Loss of Revenue due to Evasion of Taxes, Write off/Waivers and Refunds

Head	No. of cases	Amount (Rupees in crore)
State Excise	47	9.22
Sales Tax	653	15.70
Stamp duty and Registration fees	971	1.75
Total	1671	26.67

(Source: Audit Report Revenue Receipt 2008 -09)

There was an increase in the number of pending cases under all the three heads in respect of evasion of tax as well as refund cases at the end of the year in comparison to the previous year. Had these cases been settled, there would have been an increase in State's own revenue.

Test check of records in respect of sales tax, land revenue, State excise, taxes on vehicles, stamp duty and registration fees, other tax receipts, forest receipts and other non-tax receipts conducted during the year 2008-09 revealed underassessment/ short levy/loss of revenue amounting to Rs 2,342.15 crore in 296745 cases. During the year, the departments accepted underassessment and other losses of Rs 804.20 crore in 77791 cases. An amount of Rs 18.95 crore had been recovered in 1426 cases relating to different years.

1.3.3 Revenue Arrears

Department-wise status of arrears of revenue including arrears pending on account of litigation in courts during 2008-09 is given in **Table 1.8** :

Table No. 1.8: Department-wise status of arrears of revenue during 2008-09

(Rupees in crore)

Sl No.	Department	Arrears of revenue	Arrears of revenue for more than five year	Arrears of revenue pending in courts	Outstanding revenue arrears in respect of other items
1.	Transport (Tax on vehicles)	31.17	Information not furnished	--	--
2.	State Excise	59.60	55.49	--	--
3.	Electricity	19.72	13.86	3.09	16.63
4.	Sales Tax	546.04	424.29	44.43	501.61
5.	Mining	12.19	12.19	--	--
6.	Co-operation	9.23	5.51	--	--
7.	Stamp duty and Registration	87.50	21.69	--	--
	Total	765.45	533.03	47.52	518.24

(Source: Audit Report Revenue Receipt 2008-09)

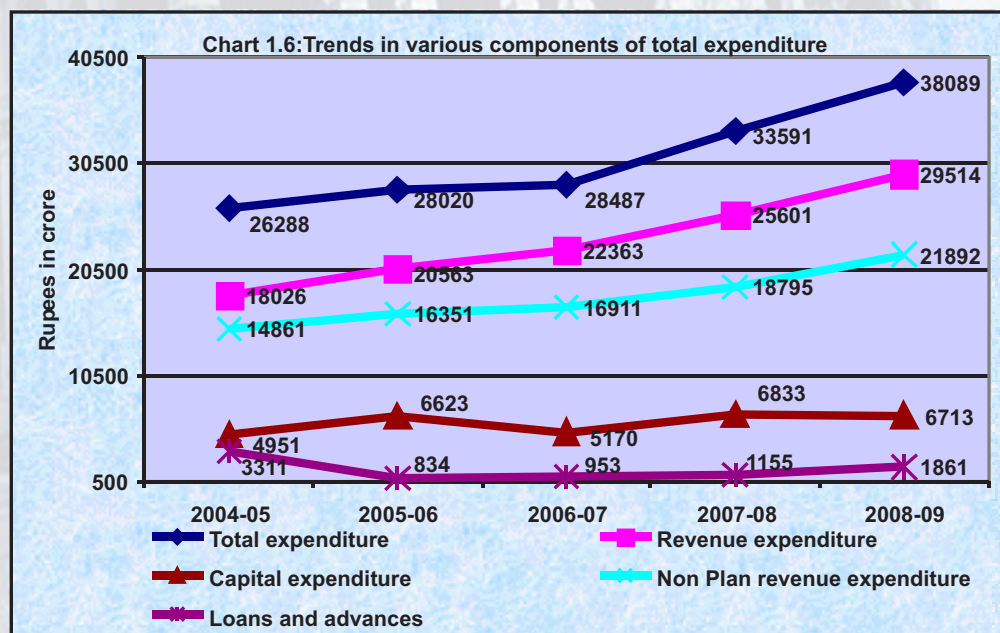
The arrears of revenue as on 31 March 2009 (given in Table No. 1.8) amounted to Rs 765.45 crore, of which Rs 533.03 crore (excluding the amount related to Transport Department) were outstanding for more than five years. The position of arrears of revenue in respect of other departments at the end of 2008-09 had not been furnished (October 2009) by the Government. Also, the stages at which arrears were pending for collection were not furnished by the departments (October 2009).

1.4 Application of resources

Analysis of the allocation of expenditure at the State Government's 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 (2004-09). Its composition, both in terms of 'economic classification' and 'expenditure by activities', is depicted respectively in **Charts 1.7** and **1.8**.



(Source : State Finance Accounts of the respective years)

The total expenditure of the State increased from Rs 26,288 crore to Rs 38,089 crore at an annual average growth rate of nine *per cent* per annum during 2004-09. The capital and revenue expenditure components increased by Rs 1,762 crore (36 *per cent*) and Rs 11,488 crore (64 *per cent*) respectively during the period 2004-09. These trends indicate that the increase in capital and revenue expenditure was in the ratio of 1:6.5 during the five year period.

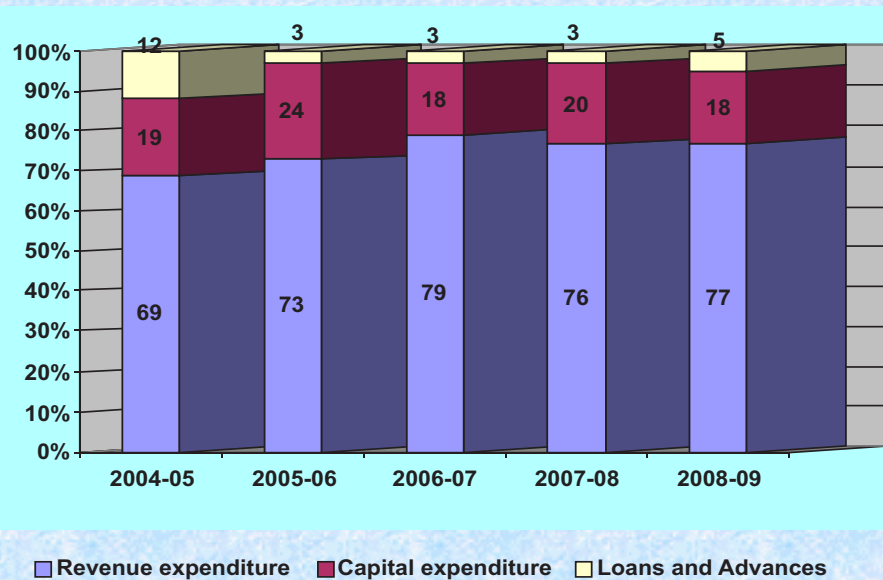
The ratio of revenue expenditure to total expenditure increased from 69 *per cent* in 2004-05 to 77 *per cent* in 2008-09 with inter-year variations and continued to share the dominant portion of the total expenditure of the State Government. The Capital expenditure relative to total expenditure correspondingly decreased from 19 *per cent* in 2004-05 to 18 *per cent* in 2008-09 with inter-year fluctuations. In terms of Plan and Non-Plan expenditure, the Plan expenditure increased by Rs 1039 crore and Non-Plan expenditure registered a growth of Rs 3,459 crore over the last year.

The significant increase of Rs 4,498 crore in total expenditure (13.39 *per cent*) during 2008-09 over 2007-08 was mainly due to increase of Rs 3,913 crore in revenue expenditure, Rs 705 crore in disbursement of loans and advances including Inter-State Settlement and decline of Rs 120 crore in capital expenditure. The decline in capital expenditure by Rs 120 crore in 2008-09 was mainly due to decrease in Capital Outlay on Roads and Bridges (Rs 228 crore), Medium Irrigation (Rs 95 crore), Minor Irrigation (Rs 68 crore), Medical and Public Health (Rs 43 crore) and other capital outlay on Industries and Minerals (Rs 128 crore), which was partly offset by increase under Education, Sports, Art and Culture (100 crore), Major Irrigation (Rs 285 crore), Social Security on Welfare (Rs 37 crore) and Welfare of SC, ST and OBCs (Rs 34 crore).

The decreasing ratio of Total Expenditure (TE)/Revenue Receipts (RR) from 133 *per cent* in 2004-05 to 113 *per cent* in 2008-09 indicates increasing reliance on revenue receipts to finance the TE and decreasing dependence on borrowed funds. This is also reflected by the decreasing trend of the fiscal liabilities to revenue receipts ratio during the period 2004-09. The buoyancy ratio of TE with reference to GSDP decreased from 1.96 in 2007-08 to 0.95 in 2008-09 due to less growth of TE and higher growth of GSDP and with reference to RR, increased from 0.92 in 2007-08 to 1.42 in 2008-09 due to less growth of revenue receipts.

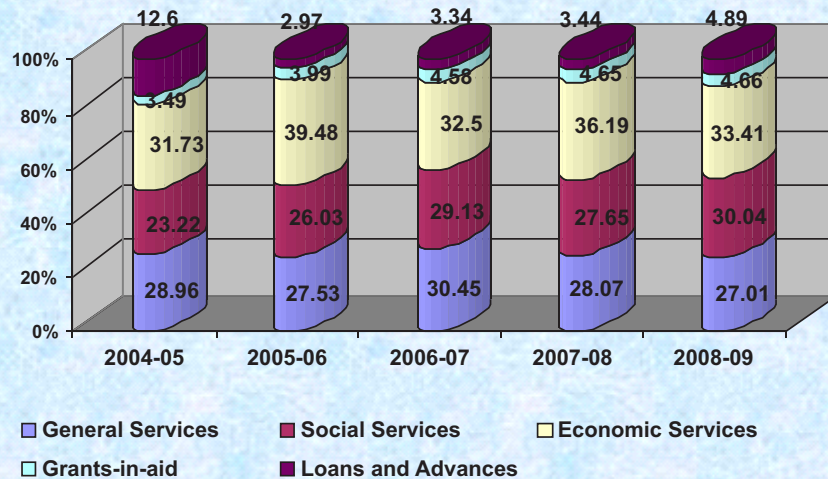
Finances of the State Government

Chart 1.7: Total Expenditure: Trends in share of its components



(Source: State Finance Accounts of the respective years)

Chart 1.8: Total expenditure: Trends by Activities



(Source: State Finance Accounts of the respective years)

The share of revenue expenditure in total expenditure showed an increasing trend during 2004-07, declined in 2007-08 with a marginal increase in 2008-09. The share of loans and advances in total expenditure showed an increasing trend during 2005-09 while that of capital expenditure showed a decreasing trend with inter-year variations during 2004-09. It was observed that a major portion of the total capital expenditure was Plan capital expenditure during the period. During 2008-09, 96.87 per cent of the total capital expenditure

was Plan capital expenditure (Rs 6,503 crore) which decreased by Rupees eight crore from the level of Rs 6,511 crore in 2007-08.

The share of General Services (including Interest Payments), considered as non-developmental expenditure declined marginally from 28.96 *per cent* to 27.01 *per cent* over the period 2004-09 while the share of Social Services increased by 6.82 *per cent* over the period 2004-09. The share of Economic Services indicated a marginal increase from 31.73 *per cent* in 2004-05 to 33.41 *per cent* in 2008-09 with wide inter-year fluctuations. The development expenditure comprising Social and Economic Services together decreased only marginally from 63.84 *per cent* in 2007-08 to 63.45 *per cent* in 2008-09. The share of grants-in-aid and loans and advances showed an increasing trends during the period 2004-09.

Trends in the growth of revenue expenditure

The overall revenue expenditure of the State increased from Rs 18,026 crore in 2004-05 to Rs 29,514 crore in 2008-09, showing an increase of 64 *per cent* over the period. Of the total increase of revenue expenditure of Rs 3913 crore (15.28 *per cent*) during 2008-09, NPRE amounted to Rs 3097 crore (79 *per cent*) while Rs 816 crore (21 *per cent*) was incurred under plan revenue heads. The increase in NPRE during the current year was mainly due to increase in expenditure on General Education (Rs 805 crore), Pension and other retirement benefits (Rs 469 crore), Food storage and Warehousing (Rs 441 crore), Power (Rs 322 crore), Police (Rs 249 crore), Compensation and assignment to local bodies and Panchayati Raj Institutions (Rs 227 crore) and State Excise (Rs 109 crore), which was partly offset by a decrease in expenditure on Other taxes and duties on commodities and services (Rs 100 crore). The actual NPRE vis-à-vis the assessment made by TFC and the State government are given in **Table 1.9**.

Table 1.9: Trends in the growth of revenue expenditure

(Rupees in crore)

Year	Assessments made by TFC (1)	Assessments made by 'State Government in MTFPS (2)	Actual NPRE (3)
2006-07	14,173	17,347	16,911
2007-08	16,478	19,113	18,795
2008-09	17,819	23,245	21,892

(Source : State Finance Accounts of the respective year & T.F.C. Recommendation and Statement laid under F.R.B.M. Act)

The actual NPRE at Rs 21,892 crore in 2008-09 was more than the normatively assessed level of TFC (22.9 *per cent*) but less than the projection made by the State Government in its MTFPS (5.8 *per cent*). Relative to the assessment made by TFC, the increase was mainly under interest payments (Rs 148 crore), General Services excluded interest payments (Rs 1,242 crore), Social Services (Rs 842 crore) and Economic Services (Rs 2,400 crore).

The Plan revenue expenditure (PRE), which consistently increased during the period 2004-09, increased by 11.99 *per cent* during the current year. The increase in PRE in 2008-09 was mainly under General Education (Rs 317 crore), Social Security and Welfare (Rs 252 crore), Rural Employment (Rs 169 crore), Medical and Public Health (Rs 124 crore), Urban Development (Rs 109 crore) and Crop Husbandry (Rs 103 crore), which was partly offset by a decrease in expenditure under Special Programme for Rural Development (Rs 160 crore) and Other Rural Development Programme (Rs 197 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 1.10** and **Chart 1.9** present the trends of expenditure on these components during 2004-09.

Finances of the State Government

Table-1.10: Components of Committed Expenditure

(Rupees in crore)

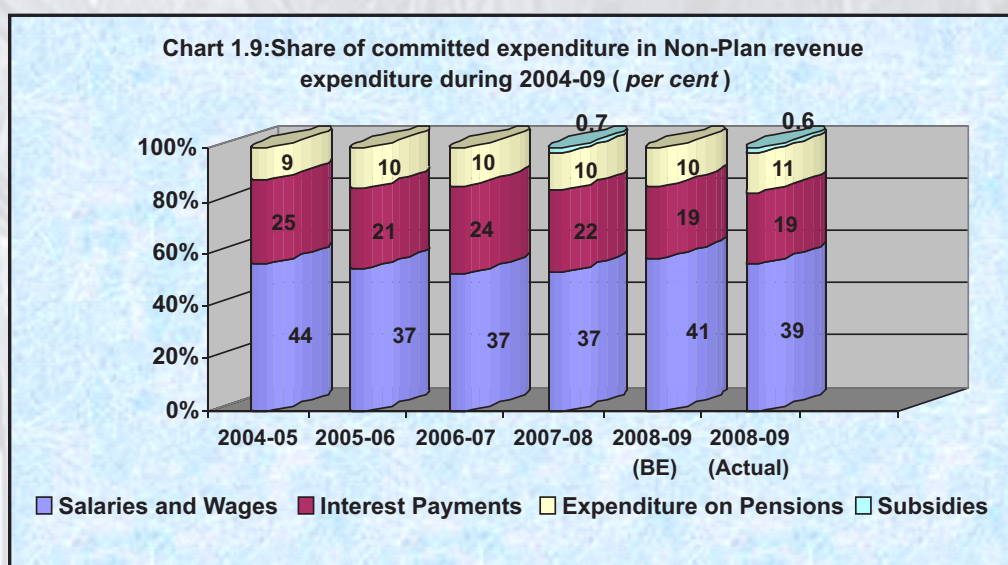
Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	208-09	
					BE	Actuals
Salaries & Wages , of which	6,545 (33.15)	6,024 (29.25)	6,337 (24.66)	6,984 (22.76)	9,550 (27.76)	8,547 (25.45)
Non-Plan Head	NA	5,258	5,639	6,221	9,550	7,660
Plan Head**	NA	766	698	763	--	887
Interest Payments	3,661 (18.54)	3,422 (16.61)	4,029 (15.68)	4,191 (13.66)	4,490 (13.05)	4,192 (12.48)
Expenditure on Pensions	1,330 (7)	1,557 (8)	1,752 (7)	1,964 (6)	2,299 (7)	2,433 (7)
Subsidies	NA	NA	NA	141 [@] (0.46)	NA	132 [@] (0.39)
Total	11,536 (58)	11,003 (53)	12,118 (47)	13,280 (43)	16,339 (47)	15,304 (46)

Figures in parentheses indicate percentage of Revenue Receipts

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

@ To the extent information is available in the Finance Accounts

(Source: State Finance Accounts of the respective years and information furnished by A.G. (A&E) Madhya Pradesh.)



(Source : State Finance Accounts of the respective years and information furnished by A.G. (A&E) Madhya Pradesh)

The overall committed expenditure increased by 33 *per cent* during 2004-09. As a percentage of revenue receipts, it showed a decreasing trend during 2004-09 except in 2008-09. During 2008-09, it constituted 46 *per cent* of the revenue receipts and was more than the previous year but less than the BE of the current year. The component- wise analysis is given as under:

Salaries and wages

The expenditure on salaries and wages increased by 31 *per cent* from Rs 6,545 crore in 2004-05 to Rs 8,547 crore in 2008-09. Expenditure on salaries and wages as a percentage of revenue receipts showed a decreasing trend during 2004-09, except in 2008-09. An increase of 23 *per cent* in expenditure on salaries and wages under the Non-Plan head during 2008-09 over the previous year was mainly due to the removal of the disparities in dearness allowance between State Government employees and Central Government employees. Actual expenditure on salaries and wages of Rs 8,547 crore in 2008-09 was less than the projections in MTFPS (Rs 9,550 crore). The salary bill relative to revenue expenditure, net of interest payments and pensions at 37 *per cent* was more than the norm of 35 *per cent* recommended by TFC.

Pension Payments

Pension payments increased by 24 *per cent* from Rs 1,964 crore in 2007-08 to Rs 2,433 crore during 2008-09 mainly on account of increase in the dearness relief given to pensioners. The increase was noticed mainly under superannuation and retirement allowances (Rs 306 crore), family pension (Rs 68 crore), leave encashment (Rs 23 crore) and gratuity (Rs 23 crore). Actual pension payment at Rs 2,433 crore in 2008-09 was more than Rs 2,299 crore (5.8 *per cent*) as projected in MTFPS as well as Rs 2,129 crore (14.3 *per cent*) projected by TFC.

Interest payments

Interest payments of Rs 4,192 crore during 2008-09 accounted for 12.48 *per cent* of the revenue receipts and constituted 14.20 *per cent* of revenue expenditure during 2008-09. Interest payments during the year were on special securities issued to National Small Saving Fund (NSSF) of the Central Government by the State Government (Rs 1,395 crore), market loans (Rs 1,009 crore), loans borrowed from the Central Government (Rs 693 crore), State Provident funds (Rs 538 crore), other internal debt (Rs 555 crore) and Management of debt (Rupees two crore). The minor increase of Rupees one crore in interest payment during 2008-09 over the previous year was the result of increase mainly under market loans (Rs 44 crore) and other internal debt (Rs 85 crore), partly offset by a decrease under other obligations (Rs 103 crore), interest on special securities issued to NSSF of Central Government (Rs 24 crore) and loans from the Central Government (Rupees one crore). It was observed that interest payments as a percentage of revenue receipts during the year 2008-09 was 12.48 *per cent* which was within the norm of 15 *per cent* to be achieved by 2009-10 as per the recommendation of TFC. Interest payments of Rs 4,192 crore paid during the year were less than the BE of Rs 4,490 crore but more than the projection of Rs 4,044 crore made by TFC for 2008-09.

Finances of the State Government

Subsidies : Scrutiny of the State budget revealed that the State Government had not operated/opened a distinct object head for subsidies. The amount of subsidy was included under the object head 'Grant-in-aid' which comprised expenditure on infrastructure, maintenance grants, discretionary grants, aided grants, grants for public relation tours, subsidy (*Arthik Sahayata*) and others (which also included subsidy). As no distinct object head for subsidy was available in the State budget, it was not possible to segregate the actual amounts of subsidy paid by the State Government. The State Government agreed to open a distinct object head of subsidy with effect from the financial year 2009-10. However, the Finance Accounts for 2008-09 showed payment of subsidy amounting to Rs 132 crore during 2008-09 (Agriculture and Allied Activities: Rs 54 crore and Power: Rs 78 crore).

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 1.11:**

Table 1.11:- 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,	158.74	133.37	235.09	166.76	191.49	161.99
Municipal Corporations and Municipalities	320.61	1027.34	1499.61	1872.65	1903.55	1880.40
Zila Parishad and Other Panchayati Raj Institutions	437.82	685.98	736.45	885.87	951.97	756.21
Development Agencies	7.33	2.00	5.91	6.81	14.64	13.00
Hospital and other charitable institutions	8.67	7.14	6.49	7.29	8.12	7.29
Other Institutions	170.90	311.43	470.46	603.38	1049.24	965.00 ⁵
Total	1,104.07	2,167.26	2,954.01	3,542.76	4,119.01	3,783.89
Assistance as per percentage of R.E	6.12	10.54	13.20	13.84	13.05	12.82

(Source: Information collected from various departments)

⁵ Includes mainly Food, Civil Supply and Consumer Protection (Rs.540.91 crore), Town and Country Planning (Rs 154.42 crore), Public Health Engineering (Rs 75.67 crore), Farmers Welfare & Agriculture Development (Rs 54.60 crore), Schedule Caste Development (Rs 41.66 crore), Co-operatives & Co-operative Societies (Rs 38.70 crore), Culture (Rs 16.06 crore), Handlooms (Rs 10.01 crore), Environment Planning and Co-ordination organization (Rs 9.32 crore), Sports Youth Welfare (Rs 8.65 crore) and Others (Rs 15 crore).

Financial assistance to local bodies and institutions increased by Rs 241.13 crore from Rs 3,542.76 crore in 2007-08 to Rs 3,783.89 crore in 2008-09. The increase was mainly under Municipal Corporations (Rs 7.75 crore), Development Agencies (Rs 6.19 crore) and other institutions (Rs 361.62 crore), which was partly offset by a decrease of Rs 4.77 crore under educational institutions and Rs 129.66 crore under Zila Parishad and Panchayati Raj Institutions.

The increase of Rs 361.62 crore under Other Institutions was mainly in respect of the Food and Civil Supplies Department (Rs 455.40 crore) due to introduction of 5623 new schemes for families living below the poverty line (Rs 233.59 crore) and 5624 schemes for procurement of food grain under the Public Distribution System (Rs 233.35 crore), which was partly offset by a decrease of Rs 97.96 crore mainly under co-operative societies due to less provision under 2425-Co-operation, and 6425-Loan for Co-operation in comparison to the previous year.

The decrease of Rs 129.66 crore under Zila Parishad and Panchayati Raj Institutions was due to less expenditure under the schemes, 'Maintenance of resources for water supplies and cleanliness' (Rs 82.52 crore) and 'Minimum basic facilities to Gram Panchayats' (Rs 83.61 crore), partly offset by increase of Rs 42.24 crore, mainly under the scheme 'Charges relating to Panchayati Raj Institutions'.

As against the BE of Rs 4,119.01 crore, a sum of Rs 3,783.89 crore was provided as assistance to various institutions during the year. Decrease in expenditure compared to the BE in 2008-09 was observed mainly in respect of Food and Civil Supplies (Rs 56.10 crore) due to less demand of funds by DDOs and Panchayati Raj Institutions (Rs 192.76 crore) due to non-release of second instalment by the GOI /Finance Department, 10 *per cent* economic cut by the Finance Department, and prior distribution of Non-Plan budget by the Social Justice Department.

The assistance as percentage of revenue expenditure decreased from 13.84 in 2007-08 to 12.82 in 2008-09, which was less than BE of 13.05.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. 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 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 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. The low level of spending on any sector by a particular State may be either due to the 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. The low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while low fiscal capacity would be reflected if the State's per capita expenditure is below the national average even after having a fiscal priority that is more than or equal to the national average. **Table 1.12** analyses the fiscal priority and fiscal capacity of the State with regard to development expenditure, social sector expenditure and capital expenditure.

Table-1.12 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	19.51	61.45	30.42	14.13
Madhya Pradesh's Average (Ratio) 2005-06	24.36	40.92	23.22	18.83
All States/National Average* (Ratio) 2008-09	19.86	65.38	33.49	17.62
Madhya Pradesh Average (Ratio)* 2008-09	23.44	63.44	30.04	17.62
Fiscal Capacity of the State	DE#	SSE	CE	
All States Average Per Capita Expenditure 2005-06	3,010	1,490	692	
Madhya Pradesh's Per Capita Expenditure (Amount in Rs) in 2005-06	1,635	928	752	
Adjusted Per Capita** Expenditure (Amount in Rs) in 2005-06	2,455	1,215	NR	
All States' Average Per Capita expenditure 2008-09	5,377	2,755	1,449	
Madhya Pradesh's Per Capita Expenditure(Amount in Rs) in 2008-09	3,487	1,651	969	
Adjusted Per Capita** Expenditure (Amount in Rs) in 2008-09	3,594	1,841	NR	

* As percentage of GSDP

** Calculated as per the methodology explained in the **Appendix 1.2 Part-A**.

AE: Aggregate Expenditure DE:Development Expenditure SSE: Social Sector Expenditure

CE: Capital Expenditure.

Population of Madhya Pradesh: 6.58 crore in 2005-06 and 6.93 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.

In **Table 1.12**, we are comparing the fiscal priority given to different categories of expenditure and the fiscal capacity of Madhya Pradesh in 2005-06 (the first year of the Award Period of the TFC) and the current year 2008-09.

Fiscal Priority

In 2005-06 and 2008-09, the Government gave adequate fiscal priority to Aggregate Expenditure (AE) and Capital Expenditure (CE) since AE/GSDP and CE/AE was higher than the national average. The priority given to Development Expenditure (DE) and Social Sector Expenditure (SSE) was however not adequate in both the years 2005-06 and 2008-09 as the DE/AE (40.92 and 63.44 *per cent*) and SSE/AE (23.22 and 30.04 *per cent*) ratio for Madhya Pradesh were lower than the All States Average of DE (61.45 and 65.38 *per cent*) and SSE (30.42 and 33.49 *per cent*).

Fiscal Capacity

In 2005-06, the per capita expenditure of CE was higher than the national average of Rs 752 compared to the national per capita expenditure of Rs 692 but that of DE and SSE was less than the national average. In 2008-09, the per capita expenditure of DE, SSE and CE (Rs 3487, Rs 1651 and Rs 969 respectively) was less than the national average figures indicating less fiscal capacity of the State. This shows that over these few years, the relative advantage enjoyed by Madhya Pradesh in the form of per capita CE (compared to other States in the country) had been eroded in the current year.

Since the DE/AE and SSE/AE ratio was lower for Madhya Pradesh in 2008-09 than the national average, an adjustment factor was applied to increase the DE/AE and SSE/AE ratio to at least the national average. This has been calculated as per the methodology given in **Appendix 1.2** It was observed that the per capita expenditure in all categories viz DE, SSE and CE was lower than the national average in 2008-09, indicating inadequate fiscal capacity in the State.

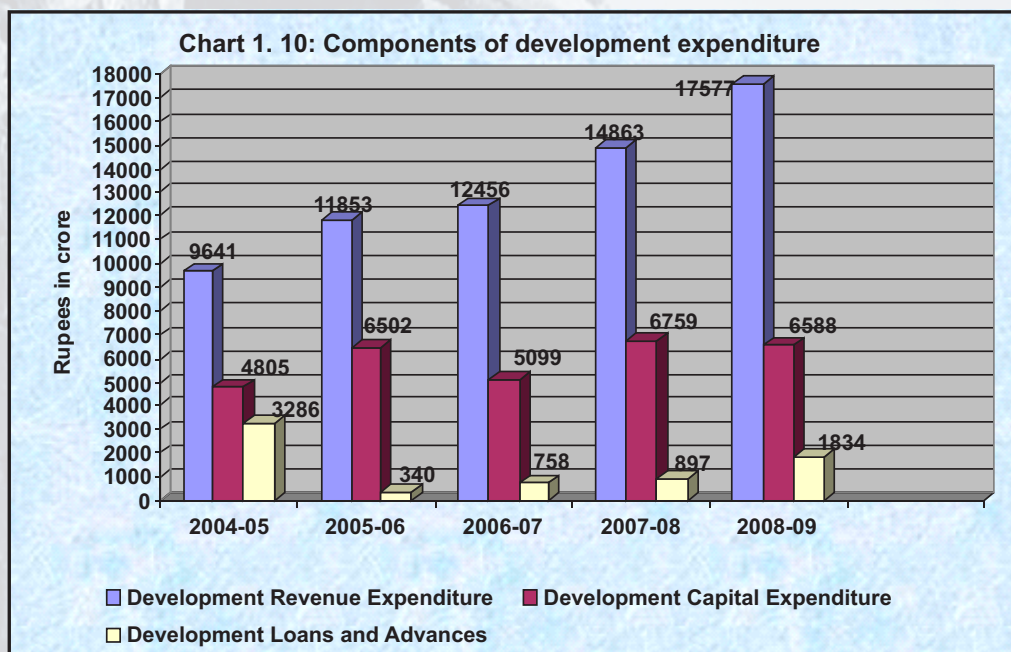
1.5.2 Efficiency of Expenditure Use

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 goods⁶. Apart from improving the allocation towards

6

Core public goods are 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 the 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.

development expenditure⁷, particularly in view of the fiscal space being created on account of the decline in debt servicing in the 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 being spent on operation and maintenance of the existing Social and Economic Services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.13** 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 1.14** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected Social and Economic Services. **Chart 1.10** presents component-wise development expenditure during 2004-09.



(Source: State Finance Accounts of the respective years)

⁷ 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-1.13: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Development Expenditure (a to c)	17,732 (68)	18,695 (66)	18,314 (64)	22,339 (66)	26,107 (66)	25,999 (68)
a. Development Revenue Expenditure	9,641 (37)	11,853 (42)	12,457 (44)	14,683 (44)	18,666 (47)	17,577 (46)
b. Development Capital Expenditure	4,805 (18)	6,502 (23)	5,099 (18)	6,759 (20)	6,000 (15)	6,588 (17)
c. Development Loans and Advances	3,286 (13)	340 (1)	758 (3)	897 (3)	1,441 (4)	1,834 (5)

Figures in parentheses indicate percentage to aggregate expenditure
(Source: State Finance Accounts of the respective years)

Table 1.13 presents trends in respect of development expenditure to total expenditure of the State during the period 2004-09, which ranged between 64 and 68 *per cent*. The share of development revenue expenditure as well as loans and advances show an increasing trend while the development capital expenditure indicate a fluctuating trend over the period 2004-09. The increase in the share of development revenue expenditure during 2008-09 over the previous year was mainly under Social Services while loans and advances were under Economic Services. The decrease in the share of development capital expenditure during 2008-09 over the previous year was under Economic Services, mainly in the transport sector. The share of development revenue expenditure during 2008-09 was marginally less than the BE but more than previous year while that of development expenditure on capital was marginally higher than the BE but less than the previous year.

Table 1.14 –Efficiency of Expenditure Use in Selected Social and Economic Services
(Per cent)

Social/Economic Infrastructure	2007-08			2008-09		
	Share of CE to TE	In RE, the share of		Share of CE to TE	In RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
Education, Sports, Art and Culture	3.73	65.09	0.17	4.79	61.46	0.14
Health and Family Welfare	8.89	61.43	0.46	4.96	66.13	0.40
Water Supply, Sanitation, Housing and Urban Development	33.34	21.13	10.27	32.70	21.50	9.13
Other Social Services	10.29	11.87	0.24	10.58	12.07	0.11
Total (SS)	11.85	44.43	1.34	11.09	43.88	1.13
Economic Services (ES)						
Agriculture and Allied Activities	3.13	47.51	0.43	1.65	42.25	0.26
Irrigation and Flood Control	83.68	73.70	15.55	83.34	81.78	9.23
Power & Energy	36.03	0.00	0.98	23.11	0.00	0.79
Transport	75.43	21.90	60.11	72.43	27.39	65.38
Other Economic Services	23.28	8.21	0.35	18.83	10.60	0.50
Total (ES)	44.19	23.76	6.96	36.95	24.97	6.29
Total (SS+ES)	30.26	35.23	3.84	25.34	35.89	3.31

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance
(Source : State Finance Accounts of the respective years and information furnished by A G (A&E) Madhya Pradesh)

Table 1.14 reveals that the share of capital expenditure on Social Services as well as on Economic Services declined from 11.85 *per cent* and 44.19 *per cent* in 2007-08 to 11.09 *per cent* and 36.95 *per cent* respectively in 2008-09. Decline in the share of Capital Expenditure under Social Services was mainly under the Health Sector and Water Supply, Sanitation, Housing and Urban Development while that of Economic Services was mainly under Power and Transport Sector. Of the revenue expenditure, the share of salaries and wages under Social and Economic Services increased marginally from 35.23 *per cent* in 2007-08 to 35.89 *per cent* in 2008-09. In the case of O&M, expenditure decreased from 3.84 *per cent* in 2007-08 to 3.31 *per cent* in 2008-09, mainly on account of Irrigation and Flood Control. Thus decrease in the proportion of capital expenditure on Social and Economic Services to total expenditure and also the fall in revenue expenditure on O&M during the current year over the previous year a indicated decline in the quality of services.

Recognising the need to improve the quality of education and health services, TFC recommended that the Non-Plan salary expenditure under Education and Health and Family Welfare should increase only by five to six *per cent* while non-salary expenditure under Non-Plan heads should increase by 30 *per cent* per annum during the award period. However, trends of expenditure revealed that the Non-Plan salary component under the Education sector increased by 22 *per cent* over 2007-08 while the Non-Plan and non-salary components increased by 49 *per cent*. Under the health and family welfare sector, the Non-Plan salary component increased by 23 *per cent* but the Non-Plan non-salary component decreased by 26 *per cent* in 2008-09 over the previous year. The expenditure pattern both in the education and health sectors needed correction in the ensuing years as per the norms of TFC.

1.6 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowings) 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 should initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on the budget in the form of implicit subsidies 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

The State invested Rs 9,643.35 crore in Statutory Corporations, Government Companies, Other Joint Stock Companies and Co-operatives Banks and Societies etc. as of 31 March 2009 (**Table 1.15**). The average return on these investments was 0.52 *per cent* in the last three years while the State paid an average rate of interest (7.61 *per cent*) on the borrowings during 2006-2009.

Table-1.15: Return on investments

Investment/return/cost of borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rupees in crore)	4,151.65	6,965.99	8,161.71	8,844.99	9,643.35
Return (Rupees in crore)	2.50	5.72	14.40	59.23	69.05
Return (per cent)	0.06	0.08	0.18	0.67	0.72
Average rate of interest on Government borrowings (per cent)	8.96	7.33	7.86	7.72	7.24
Difference between interest rate and return (per cent)	8.90	7.25	7.68	7.05	6.52

(Note: BE Figure for 2008-09 not available)

(Source : State Finance Accounts of the respective years)

Out of the total investment of Rs 9,643.35 crore at the end of March 2009, Rs 1,082.58 crore pertained to the composite State of Madhya Pradesh but was retained in Madhya Pradesh pending allocation between Madhya Pradesh and Chhattisgarh {(Statutory Corporations (Rs 411 crore), Government Companies (Rs 187.04 crore), Co-operative Banks and Societies (Rs 483.00 crore) and Joint-Stock Companies (Rs 1.54 crore)}. The return on these investments was 0.72 *per cent* in 2008-09 while the Government paid interest at the average rate of 7.24 *per cent* on its borrowings during 2008-09. The increase in investments in 2008-09 over the previous fiscal year was mainly on account of investments under Madhya Pradesh Electricity Board (MPEB), Jabalpur (Rs 318 crore), provision for settlement of guaranteed loans (Rs 160 crore), transmission system works of successor companies of MPEB (Rs 137 crore), arrangement of independent feeders for agricultural use (Rs 100 crore) and Malwa Thermal Power Projects (Rs 65 crore) and conversion of loan of Rs 16.91 crore into investment in respect of Madhya Pradesh Financial Corporation, Indore. Major investments were made under the successor companies of the Madhya Pradesh Electricity Board

(Rs 3,656 crore), MPEB Jabalpur (Rs 2,486 crore), Satpura/ Malwa/ Amarkantak/Veersingpur Thermal Power Projects (Rs 616 crore), Narmada Hydroelectric Development Corporation (Rs 822 crore) and the Madhya Pradesh Financial Corporation, Indore (Rs 319 crore), which constituted 82 *per cent* of the total investments made up to March 2009.

Of these, four Statutory Corporations and 15 Government Companies with an aggregate investment of Rs 3,343 crore for the latest year for which accounts were finalized up to 2008-09 were running in losses which accumulated to Rs 4,806 crore as per the accounts furnished by these Companies up to 2008-09 (**Appendix-1.6**). Major loss-making units included Madhya Pradesh State Industrial Development Corporation Limited, Bhopal (Rs 640 crore), Madhya Pradesh Paschim Kshetra Vidyut Vitran Company Limited, Indore (Rs 680 crore), Madhya Pradesh Madhya Kshetra Vidyut Vitran Company Limited, Bhopal (Rs 494 crore), Madhya Pradesh Poorv Kshetra Vidyut Vitran Company Limited, Jabalpur (Rs 614 crore), Optel Telecommunication Limited, Bhopal (Rs 115 crore), Madhya Pradesh State Electricity Board, Jabalpur⁸ (Rs 797 crore), Madhya Pradesh State Road Transport Corporation (Rs 1,025 crore), Madhya Pradesh Financial Corporation (Rs 241 crore) and Madhya Pradesh State Textile Corporation Ltd. Bhopal (Rs 95 crore).

The Government needs not only to invest the high cost borrowings more judiciously to get better returns, but also address the losses on account of these sick units either by their restructuring and rehabilitation and/or by considering the disinvestments of such units.

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 of these institutions/ organizations. **Table 1.16** presents the outstanding loans and advances as on 31 March 2009, interest receipts vis-à-vis interest payments during the last three years.

⁸ MPSEB is still existing and its accounts upto 2005-06 has been finalised. The accumulated loss of Rs 797 crore pertains to the period upto May 2005.

Finances of the State Government

Table-1.16: 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	
			BE	Actual
Opening Balance	3,848	4,773	--	5,823
Amount advanced during the year	953	1,155	1,778	1,861
Amount repaid during the year	28	105	298	54
Closing Balance	4,773	5,823	--	7,630
of which Outstanding balance for which terms and conditions have been settled			-	
Net addition	925	1,050	--	1,807
Interest receipts	14	29	495	64
Interest receipts as percentage of outstanding Loans and Advances	0.32	0.55	--	0.95
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	7.86	7.72	--	7.24
Difference between interest payments and interest receipts (per cent)	7.54	7.17	--	6.29

(Source : State Finance Accounts of the respective year and Budget Estimate 2008-09)

The total outstanding loans and advances as on 31 March 2009, was Rs 7,630 crore. The interest received against these loans advanced was meagre and marginally increased from 0.32 *per cent* in 2006-07 to 0.95 *per cent* in 2008-09. Loans advanced to various State Government institutions increased at a rate higher than the speed of recovery of loans and advances resulting in an increase in outstanding loans and advances during this period.

It was observed that 56 *per cent* (Rs 4,305 crore) of outstanding loans and advances (Rs 7,630 crore) as on 31 March 2009 pertained to MPSEB and its successor companies and another 22 *per cent* were to be recovered from units engaged in water supply, sanitation, housing and urban development (Rs 1,678 crore), 13 *per cent* from those under Miscellaneous General Services (Rs 971 crore) and five *per cent* from those in Agriculture and allied activities (Rs 363 crore). The average interest paid on borrowing at the rate of 7.24 *per cent* was more than the interest received at the rate of 0.95 *per cent* on Loans and Advances given by the State Government during 2008-09. The significant increase in disbursement of loans and advances was mainly in respect of loans to power transmission and distribution companies. The recovery of loans and advances of Rs 54 crore during the year was less than the BE of Rs 298 crore mainly due to non-recovery from MPSEB and its successor companies. The decrease of Rs 51 crore in actual recoveries over the previous year was mainly under Loans for Miscellaneous General Services (Rs 23 crore) and Industries and Minerals (Rs 45 crore), partly offset by increase under Water Supply, Sanitation and Urban Development (Rs 15 crore) and Loans to Government servants (Rupees three crore). Interest receipts (Rs 64 crore) were less than the BE (Rs 495 crore) mainly due to non-

receipt of interest from MPSEB. The outstanding loans and advances as on 31 March 2009 formed 12 *per cent* of the financial assets as against 11 *per cent* as on 31 March 2008.

1.6.3 Cash Balances and Investment of Cash balances

Table 1.17 depicts the cash balances and investments made by the State Government out of the cash balances during the year:

Table-1.17: 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	1,792.45	2,422.10	(+)629.65
Investments from Cash Balances (a to d)	2,759.00	2,929.47	(+)170.47
a. GOI Treasury Bills	2,755.68	2,926.15	(+)170.47
b. GOI Securities	3.32	3.32	--
c. Other Securities	--	--	--
d. Other Investments	--	--	--
Funds-wise Break-up of Investments from earmarked balances (a to c)	317.95	316.75	(-) 1.20
a. Famine Relief Fund	1.89	0.35	(-)1.54
b. Revenue Reserve Fund	10.56	10.56	--
c. State Agriculture Credit Relief and Guarantee Fund	0.18	0.18	--
d. Guarantee Redemption Fund	305.32	305.66	(+)0.34
Interest Realized	175.77	95.95	(-)79.82

(Source : State Finance Accounts of the respective years)

The cash balances of the State Government at the end of the year increased by Rs 630 crore (35 *per cent*) from the level of Rs 1,792 crore in the previous year. The cash balance investment of the State Government on the other hand increased from Rs 2,759 crore in 2007-08 to Rs 2,929 crore at the end of the current year mainly under GOI Treasury Bills. The State Government invested Rs 2,926 crore in GOI Treasury bills and Rupees three crore in GOI securities as on 31 March 2009 under its Cash Balance Investment Account and earned an interest of only Rs 96 crore.

Under an agreement with the Reserve Bank of India (RBI), the Government of Madhya Pradesh has to maintain with RBI a minimum balance of Rs 1.96 crore each day. If this balance falls below the agreed minimum on weekly settling days, the deficiency is made good by selling GOI treasury bills or by taking Ways and Means Advances from RBI. That is why investments are made in GOI treasury bills having easy liquidity. During 2008-09, on 29 October 2008, in spite of discounting of all the treasury bills, the State had to avail of Ways and Means Advances for Rs 19 crore for only two days to maintain its minimum balance with RBI and paid interest of Rs 0.01 crore. Nothing

was outstanding on these accounts as on 31 March 2009. Investment from earmarked balances decreased by Rs 1.20 crore during 2008-09 mainly under the Famine Relief Fund, partly offset by an increase under the Guarantee Redemption Fund.

The efficiency of handling of cash balances by the State can also be assessed by monitoring the trends in the monthly daily average of cash balances held by the State to meet its normal banking transactions. **Table 1.18** presents the trends in monthly average daily cash balances and the investments in Auction Treasury Bills for the last three years (2006-09).

Table-1.18: Trends in Monthly Average Daily Cash Balances and the Investments in Auction Treasury Bills

(Rupees in crore)

Month	Monthly Average Daily Cash Balances			Investment in 14 days Treasury Bills		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
April	2.34	2.04	1.97	1,112.15	2,503.70	2,339.64
May	1.97	1.96	3.22	1,739.48	2,628.74	2,214.96
June	1.97	1.96	1.97	1,856.34	3,207.10	1,629.34
July	1.97	1.96	1.97	1,982.58	2,847.18	1,140.92
August	1.97	2.98	6.60	2,211.08	3,808.23	1,548.28
September	1.96	2.46	5.40	2,408.13	3,747.12	689.06
October	3.80	1.96	2.89	1,880.93	2,869.41	129.15
November	1.97	1.96	1.97	2,327.17	3,122.82	870.35
December	1.97	1.96	1.97	2,330.34	3,892.59	1,656.15
January	1.97	1.97	1.97	1,921.54	3,552.01	2,513.47
February	1.96	1.97	7.61	2,311.72	4,064.91	2,286.72
March	3.51	3.38	14.26	2,502.32	2,755.68	2,926.15

(Source : Information furnished by A.G. (A&E) Madhya Pradesh)

During 2006-07 and 2007-08, investments in 14 day Treasury Bills showed an increasing trend while in 2008-09 there was a decreasing trend from April to October 2009 and thereafter an increasing trend up to March 2009. During 2006-09, there had been balances of more than Rs 1,112 crore in each month except in three months (September to November 2009).

1.7 Assets and Liabilities

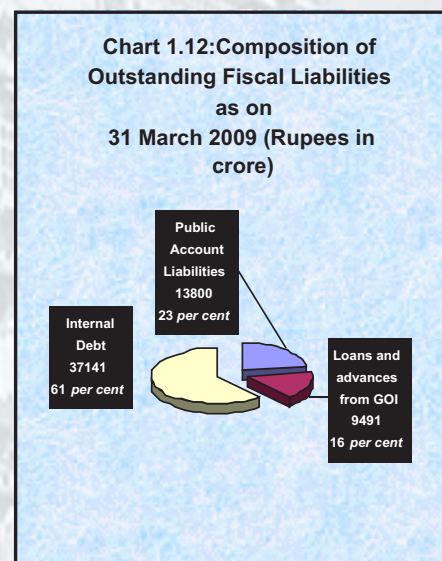
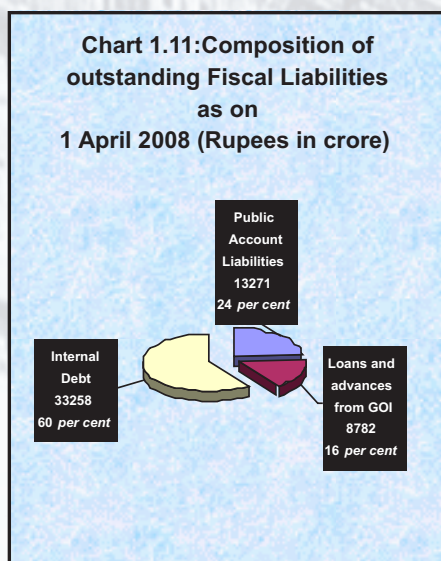
1.7.1 Growth and composition of Assets and Liabilities

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 Part-B** gives an abstract of such liabilities and 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 FRBM Act, 2005, describes 'Total Liabilities' as the liabilities under the Consolidated Fund and the Public Account of the State and includes risk weighted guarantee obligations of the State Government where the principal and/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**. The composition of fiscal liabilities during the current year vis-à-vis the previous year are presented in **Charts 1.11** and **1.12**.



(Source : State Finance Accounts of the respective year)

The overall fiscal liabilities of the State increased from Rs 44,235 crore in 2004-05 to Rs 60,432 crore in 2008-09. The growth rate increased to 9.26 *per cent* during 2008-09 as against 3.81 *per cent* in 2007-08. The increase in 2008-09 over the previous year was mainly under market loans (Rs 3,957 crore), loans from National Bank of Agriculture and Rural Development (Rs 525 crore) and loans from GOI (Rs 709 crore), partly offset by a decrease mainly under compensation and other bonds (Rs 408 crore).

Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. As of 31 March 2009, the Consolidated Fund liabilities (Rs 46,632 crore) comprised market loans (Rs 16,604 crore), special securities issued to NSSF (Rs 14,174 crore); compensation and issue of other bonds (Rs 2,856 crore); loans from NABARD (Rs 2,563 crore); loans and advances from GOI (Rs 9,491 crore) and other loans (Rs 944 crore). The Public Account liabilities (Rs 13,800 crore) comprised small savings, provident funds etc. (Rs 8,040 crore), interest bearing obligations (Rs 402 crore) and non-interest bearing obligations like deposits and other earmarked funds (Rs 5,358 crore). These liabilities stood at 37.18 *per cent* of GSDP which was 1.8 times the revenue receipts and 3.56 times the State's own resources as at the end of 2008-09. The buoyancy of these liabilities with respect to GSDP increased from 0.42 in 2007-08 to 0.66 during the year mainly due to sharp increases in their growth rate from 3.81 *per cent* in 2007-08 to 9.26 *per cent* in 2008-09.

A Sinking Fund for amortization of all loans, including loans from banks, liabilities on account of NSS etc. had not been set up by the State Government. The State Government was of the view that except where it may be obligatory to do so, provision for amortization of loans received from GOI should be made out of revenues only where sufficient revenue resources were available to finance such amortization arrangements. The State Government did not consider it necessary to make arrangements for amortization of any such loans in spite of having revenue surpluses.

1.7.3 Status of Guarantees – Contingent liabilities

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

As shown in Statement 6 of the Finance Accounts, the maximum amounts for which guarantees were given by the State and the outstanding guarantees for the last three years are given in **Table 1.19**.

Finances of the State Government

Table-1.19: Guarantees given by the Government of Madhya Pradesh

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09	
			Budget estimate	Actual
Maximum amount guaranteed	12,424.26	12,086.00	10,300.58	11,991.33
Outstanding amount of guarantees*	865.82	855.73	6,890.07	1,930.09
Percentage of maximum amount guaranteed to total revenue receipts	48.35	39.38	29.94	35.71
Actual figures against criteria as per FRBM Act as under: (Limit the annual incremental guarantees so as to ensure that the guarantees do not exceed 80 per cent of the total revenue receipts in the year preceding the current year)	4.20*	3.33*	73.19	6.29*

*To the extent information was available in Finance Accounts

(Source: State Finance Accounts of the respective years and Statement laid before the legislature and projection made under FRBM Act)

The outstanding amount of guarantees is in the nature of a contingent liability, which was 5.75 *per cent* of the revenue receipts. Guarantees had been given by the State Government for the discharge of certain liabilities like loans raised by Statutory Corporations, Government Companies, Joint Stock Companies, Co-operative institutions, local bodies, firms etc. The maximum amount guaranteed by the State Government decreased from Rs 12,424 crore in 2006-07 to Rs 11,991 crore (including Rs 9,416 crore still to be allocated between Madhya Pradesh and Chhattisgarh as per the M.P.Reorganisation Act, 2000) in 2008-09, out of which Rs 1,930 crore was outstanding at the end of the year.

The major recipients of such guarantees were Statutory Corporation and Boards and Co-operative Banks and Societies. Out of the outstanding guarantees of Rs 1,930 crore, Rs 20 crore was outstanding on account of interest. The State Government constituted the Guarantee Redemption Fund and at the end of year 2008-09, there was a closing balance of Rs 305.66 crore in the Fund. The FRBM Act, 2005 prescribes the fiscal target of limiting annual incremental guarantees so as to ensure that the total guarantees do not exceed 80 *per cent* of the total revenue receipts in the year preceding the current year. The annual incremental guarantee was within the limit fixed under the FRBM Act.

As per the FRBM Act 2005, the State Government is to ensure that within a period of 10 years, i.e. as on 31 March 2015, total liabilities do not exceed 40 *per cent* of the estimated GSDP for that year. It was observed that this ratio at 38.37 *per cent* (including guarantees liabilities) was within the ceiling limit laid down in the Act for the year

2015. The ratios of total liabilities to GSDP and revenue receipts during the year at 38.37 *per cent* and 185.73 *per cent* respectively, were also less than the corresponding BE of 43.65 and 200.39 *per cent* respectively.

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze various indicators that determine the debt sustainability⁹ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization¹⁰; sufficiency of non-debt receipts¹¹; net availability of borrowed funds¹²; the burden of interest payments (measured by the ratio of interest payments to revenue receipts) and the maturity profile of State Government securities. **Table 1.20** analyzes the debt sustainability of the State according to these indicators for the period of five years beginning from 2004-05.

Table 1.20: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilisation (Quantum Spread + Primary Deficit)	(-)4,745	(-)198	3,143	2,164	3,526
Sufficiency of Non -debt Receipts (Resource Gap)	811	1,921	1,816	(-)30	(-)1,649
Net Availability of Borrowed Funds (percentage in bracket)	3,070 (21)	1,529 (14)	101 (1)	(-)2,160 (-20)	791 (5)
Burden of Interest Payments (IP/RR Ratio)	0.19	0.17	0.16	0.14	0.12

9 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 a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficit should match the increase in capacity to service the debt.

10 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-GSDP ratio is likely to be stable provided the 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), the debt sustainability condition states that if the quantum spread, together with the primary deficit is zero, the debt-GSDP ratio would be constant or the debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising and in case it is positive, the debt-GSDP ratio would eventually be falling.

11 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.

12 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.

Finances of the State Government

Maturity Profile of State Debt for the years 2007-08 and 2008-09 (Rupees in crore)

In Years	FY 2007-08				FY 2008-09			
	6003- Internal Debt Amount	6004- Loans and Advances Amount	Total Amount	Percentage of Repayment due to total debt	6003- Internal Debt Amount	6004- Loans and Advances Amount	Total Amount	Percentage of Repayment due to total debt
0-1	735.82	444.86	1,180.68	2.81	1,123.12	456.70	1,579.82	3.39
1-3	2,220.91	944.64	3,165.55	7.53	2,540.99	1,030.95	3,571.94	7.66
3-5	3,293.24	1,037.46	4,330.70	10.30	4,005.97	1,152.16	5,158.13	11.06
5-7	5,010.18	1,085.38	6,095.56	14.50	5,298.33	1,206.40	6,504.73	13.95
7 and above	15,686.68	5,265.34	20,952.02	49.84	17,809.82	5,640.29	23,450.11	50.29
Miscellaneous*	6,311.66	4.17	6,315.83	15.02	6,363.40	4.17	6,367.57	13.65
Total	33,258.49	8,781.85	42,040.34		37,141.63	9,490.67	46,632.30	

* Information in respect of these items are awaited from State Government/Reserve Bank of India

(Source : State Finance Accounts of the respective years and information furnished by A.G. (A&E) Madhya Pradesh)

The maturity profile of State debt as given in **Table 1.20** indicates that the State Government will have to repay eight per cent of its debt between one and three years, 11 *per cent* between three and five years, 14 *per cent* between five and seven years and 50 *per cent* after seven years. The maturity profile of repayment of about 14 *per cent* of State debt was not available as the information had not been received from the State Government/Reserve Bank of India. It is critical to have clarity on the repayment schedule of debt. Liability on account of State debt was continuously increasing year after year. As compared to the previous year, the internal debt of the State Government and loans and advances from the Central Government had increased at growth rates of 11.68 *per cent* and 8.07 *per cent* respectively at the year ending March 2009 but the burden of interest payments showed a decreasing trend during 2004-09.

1.8.1 Debt Stabilisation

An analysis of primary deficit vis-à-vis the quantum spread revealed that their sums turned out to be negative during 2004-06 indicating a rising debt-GSDP ratio during the period. In subsequent years, this indicator turned positive showing that the debt was stabilising.

1.8.2 Sufficiency of Non-debt receipts

During the three years (2004-07), non-debt receipts met not only the incremental requirement of the primary expenditure but after meeting the incremental interest liabilities, resulted in a positive resource gap indicating the increasing capacity of the State to sustain its debt. However, during 2007-08, the incremental non-debt receipts were sufficient to meet the additional requirement of primary expenditure, which increased sharply during the year but were not enough to meet the incremental interest liability resulting in a moderate negative resource gap. During 2008-09, the incremental non-debt receipts were not enough to meet the incremental requirements of primary

expenditure resulting in a substantial negative resource gap during the year. Unless this position is reversed in future years, debt sustainability could be in question remains stable.

1.8.3 Net availability of funds

The debt redemption ratio increased from 0.79 to 1.20 during the period 2004-08, but decreased to 0.95 in 2008-09 mainly due to significant receipts under internal debt and loans and advances from GOI. During the current year, internal debt redemption was 83 *per cent* of fresh debt receipts, redemption of GOI loans was 98 *per cent* while in case of other obligations, repayments were 102 *per cent* of fresh receipts. These trends indicated that the debt receipts were mainly utilised for repayment of debt.

Out of receipts of Rs 5,399 crore under Internal Debt, the State Government raised market loans of Rs 4,495 crore during the year at an average interest rate of 7.49 *per cent* per annum i.e. Rs 752 crore from NABARD and Rs 71 crore from NSSF. The State Government borrowed Rs 1,154 crore from GOI. The receipt of loans and advances from GOI increased from Rs 539 crore in 2007-08 to Rs 1,154 crore in 2008-09 mainly due to increase in the receipt of Block Loans under 'Loan for State/Union Territories Plan Scheme'. Repayments of Internal Debt (Rs 4,478 crore) and Loans and Advances from GOI (Rs 1,138 crore) included payment of interest of Rs 3,654 crore (65 *per cent*) and debt relief of Rs 363 crore (six *per cent*) with only Rs 1,599 crore (29 *per cent*) for repayment of principal debt. This indicated that most of the amounts of repayments were for payment of interest. As on 31 March 2009, 32 *per cent* of the existing market loans of the State Government carried an interest rate exceeding 10 *per cent*.

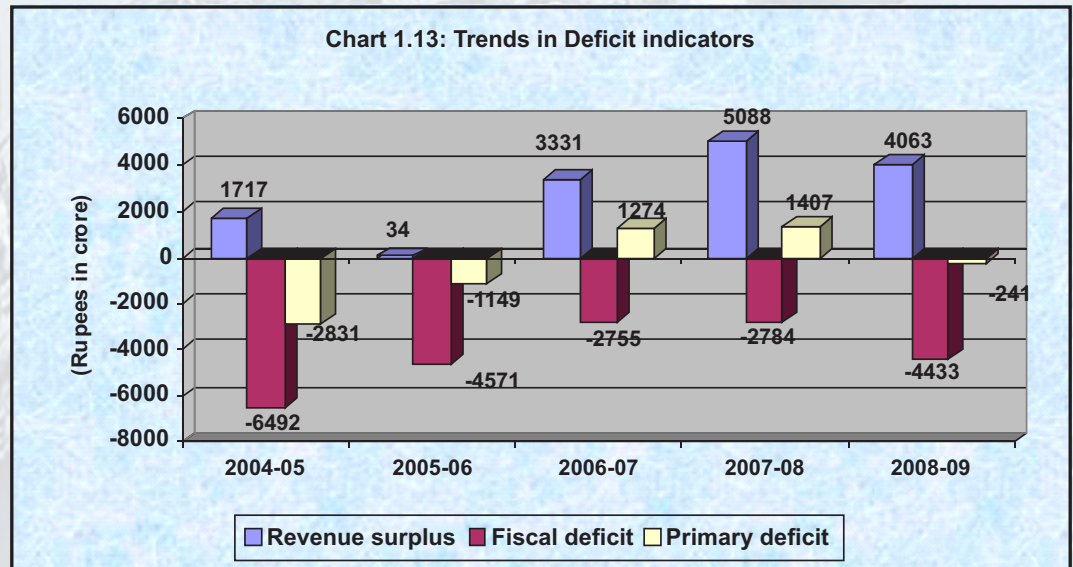
1.9 Fiscal Imbalances

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

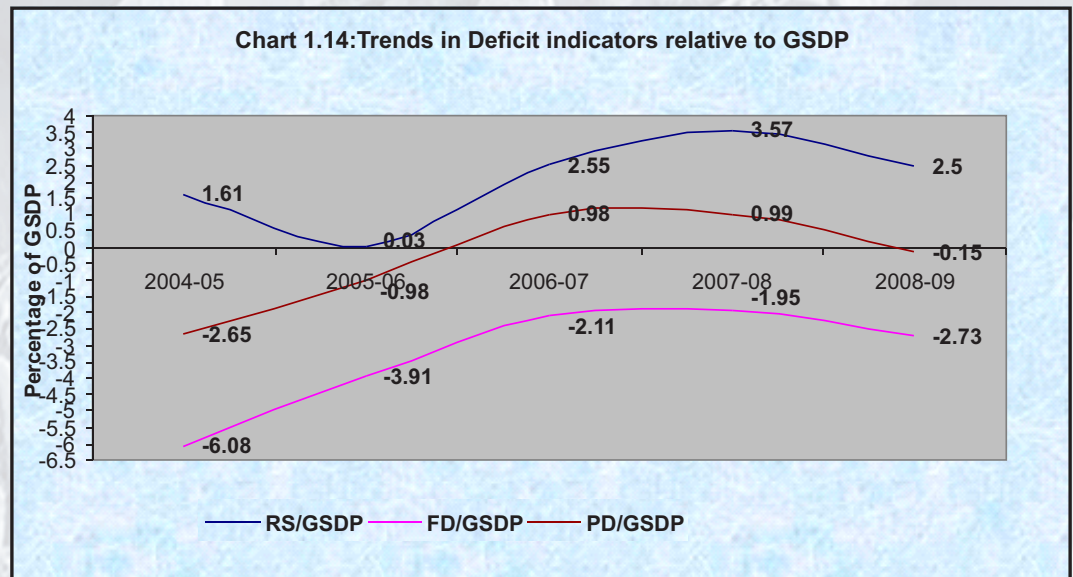
Finances of the State Government

1.9.1 Trends of deficits

Charts 1.13 and 1.14 present the trends in deficit indicators over the period 2004-09:



(Source : State Finance Accounts of the respective year)



(Source : State Finance Accounts of the respective years and Directorate of Economic and Statistic Government of Madhya Pradesh)

The State had a revenue surplus during 2004-05 to 2008-09. The revenue surplus decreased from Rs 5,088 crore during 2007-08 to Rs 4,063 crore during 2008-09. An increase of 15.28 *per cent* (Rs 3,913 crore) in revenue expenditure during 2008-09 in comparison to that of only 9.41 *per cent* (Rs 2,888 crore) in revenue receipts over 2007-08 led to the decline in the revenue surplus during 2008-09. The decrease in revenue surplus of the State may however, be seen in view of the fact that there was an increase of about five *per cent* in the rate of growth of NPRES and a decline of 1.5 *per cent* in the rate of growth of the State's own taxes and a significant less rate of growth of 4.3 *per cent* (Rs 688 crore) in 2008-09 as against 26.8 *per cent* in 2007-08 relative to the previous year under central transfers comprising the State's share in Central taxes and duties and grants-in-aid from GOI.

Fiscal deficit, defined as the gap between the total expenditure of the Government and its total resources, decreased from Rs 6,492 crore in 2004-05 to Rs 2,784 crore in 2007-08 but increased sharply in 2008-09 to Rs 4,433 crore. Given the decline in the incremental revenue surplus of Rs 1,025 crore during the year, the fiscal deficit increased by Rs 1,649 crore, mainly on account of decrease in non-debt receipts (Rs 39 crore) and capital expenditure (Rs 120 crore) and increase in disbursement of loans and advances including inter-State settlement (Rs 705 crore) during 2008-09, relative to the previous year. Given the increase in fiscal deficit (Rs 1,649 crore) and minor increase in interest payments (Rupees one crore), the primary surplus of Rs 1,407 crore in 2007-08 decreased and got converted to a primary deficit of Rs 241 crore in 2008-09. The revenue surplus as a percentage of GSDP decreased from 3.57 *per cent* in 2007-08 to 2.50 *per cent* in 2008-09 but was more than the BE of 1.80 *per cent*. Though the fiscal deficit relative to GSDP increased from 1.95 *per cent* in 2007-08 to 2.73 *per cent* in the current year, it remained within the three *per cent* ceiling prescribed both in the BE and the norm recommended under the FRBMA Act 2005.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.21**.

Table 1.21: 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	6,492	4,571	2,755	2,784	4,433
1	Revenue Deficit	-1,717	-34	-3,331	-5,088	-4,063
2	Net Capital Expenditure	4,951	6,623	5,161	6,822	6,689
3	Net Loans and Advances	3,258	-2,018	925	1,050	1,807
	Financing pattern of Fiscal Deficit					
1	Market Borrowings	1,453	944	1,063	1,337	3,957
2	Loans from GOI	-97	-121	-311	102	709
3	Special Securities issued to NSSF	2,766	2,998	2,045	128	-126
4	Loans from Financial Institutions	1,337	385	76	128	51
5	Reserve Funds	336	246	422	-34	12
6	Small Savings, PF etc	641	1	158	193	204
7	Deposits and Advances	29	595	782	274	237
8	Suspense and Misc	177	60	71	-18	-43
9	Remittances	16	39	23	57	62
10	Others		-8	8		
11	Cash balances increase(+)/ decrease(-)	+166	+568	+1,582	-617	+630

(Source: State Finance Accounts of the respective years)

During 2004-05 to 2007-08, the fiscal deficit was mainly financed from the resources raised in respect of market borrowings, loans from financial institutions and special securities issued to NSSF, while in 2008-09, the fiscal deficit substantially increased and was financed by a significant increase in market borrowings and loans from GOI.

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. A 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 the borrowings (fiscal liabilities) was not having any asset backup. The bifurcation of the primary deficit (**Table 1.22**) would indicate the extent to which the deficit was on account of enhancement in capital expenditure, which may be desirable to improve the productive capacity of the State's economy.

Table 1.22: Primary deficit/surplus – bifurcation of factors

(Rupees in crore)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure (CE)	Loans and Advances*	Primary Expenditure (PE)	Non-debt receipt vis-à-vis Primary revenue expenditure	Primary Deficit (-)/ surplus(+)	CE as per cent to PE
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)	9
2004-05	19,796	14,365	4,951	3,311	22,627	5,431	-2,831	21.88
2005-06	23,449	17,141	6,623	834	24,598	6,308	-1,149	26.92
2006-07	25,732	18,334	5,170	954	24,458	7,398	1,274	21.14
2007-08	30,807	21,410	6,833	1,157	29,400	9,397	1,407	23.24
2008-09	33,656	25,322	6,713	1,862	33,897	8,334	-241	19.80

*Including Inter-State settlement

(Source : State Finance Accounts of the respective years)

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2004-09 reveals that the non-debt receipts were enough to meet the primary revenue expenditure, thereby generating a surplus, which consistently increased from Rs 5,431 crore in 2004-05 to Rs 9,397 crore in 2007-08 but decreased to Rs 8,334 crore in 2008-09, due to the low rate of growth of revenue receipts mainly on account of less receipt of Central transfers and more rate of growth of NPPE in comparison to the previous year. In other words, the non-debt receipts of the State were enough to meet the primary expenditure¹³ requirements in the revenue account and left some receipts to meet the expenditure under the capital account. Capital expenditure as a percentage of primary expenditure showed an inter-year fluctuating trend during 2004-09 and declined from 21.88 per cent in 2004-05 to 19.80 per cent in 2008-09, indicating a decline in the quality of deficits in the States' finances. During 2006-08, the State achieved a primary surplus but reverted to primary deficits during 2004-06 and 2008-09 when the total non-debt receipts fell short of the total primary expenditure. During 2008-09, an increase in primary deficit was experienced mainly due to the decline in the revenue surplus on account of less receipt of Central transfers and increase in the disbursement of loans and advances.

1.9.4 State's Own Revenue and Deficit Corrections

It is worthwhile to observe the extent to which deficit correction is achieved by the State on account of improvements in its own resources. This is an indicator of the durability of the corrections in deficit indicators. **Table 1.23** presents the changes in revenue receipts of the State and the corrections of deficit during the last three years.

¹³ 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.

Table-1.23: Changes in Revenue Receipts and Corrections of Deficit

(Percentage of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	19.68	21.53	21.80	20.66
a. State's Own Tax Revenue	8.02	8.43	9.01	8.38
b. State's Own Non- Tax Revenue	2.04	1.92	1.91	2.06
c. State's Share in Central Taxes and Duties	6.19	7.16	6.67	6.62
d. Grants-in-Aid	3.43	4.02	4.21	3.60
Revenue Expenditure	17.13	17.96	20.00	18.16
Revenue Deficit(-)/Surplus(+)	+2.55	+3.57	+1.80	+2.50
Fiscal Deficit(-)/Surplus(+)	-2.11	-1.95	-3.00	-2.73

Note: BE figure of GSDP for 2008-09 is 157777 crore.

(Source : State Finance Accounts of the respective years)

Relative to GSDP, the components of revenue receipts i.e. the State's own tax revenue, the State's share in Central taxes and grants-in-aid declined during the current year over the previous year and the BE of the current year for 2008-09. This resulted in a decline in the ratio of revenue receipt to GSDP during the current year over the previous year while the ratio of revenue expenditure to GSDP increased over the previous year but decreased in comparison to BE. Consequently, the ratio of revenue surplus to GSDP decreased during the year over the previous year. These trends indicated a decline in the resources of the State. Besides, there was no improvement in the State's own resources during the year over the previous year. The ratio of fiscal deficit to GSDP also increased during the current year over the previous year due to substantial growth of fiscal deficit during the year.

1.10 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit/surplus – indicated a declining trend in 2008-09 as revenue surplus decreased and primary surpluses turned into primary deficit. Moreover, fiscal deficit substantially increased relative to the previous year. The decline in the revenue surplus of the State was mainly due to the marginal decline of growth in the State's own taxes and the substantial decline in Central transfers comprising the State's share in Central taxes and duties and grants-in-aid from GOI as well as increase in NPPE during 2008-09 as compared to the previous year. Fiscal deficit relative to GSDP increased from 1.95 *per cent* in 2007-08 to 2.73 *per cent* in the current year, but it remained within the three *per cent* ceiling prescribed by both in BE and norm recommended under FRBM Act, 2005.

Notwithstanding this, the State achieved its revenue and fiscal deficit targets relative to GSDP laid down under the FRBM Act, 2005.

The expenditure pattern of the State revealed that the revenue expenditure as a percentage of total expenditure continued to share a dominant proportion of the total expenditure at 77 *per cent* during 2008-09, leaving less resources for expansion of services and creation of assets. Moreover, within the revenue expenditure the NPRE of Rs 21,892 crore in 2008-09, although lower than Rs 23,245 crore projected by the State in its MTFPS remained significantly higher than the normatively assessed level of TFC (Rs 17,819 crore) for the year. Further, three components (salary and wages expenditure, pension payments and interest payments) constituted about 69 *per cent* of the NPRE during the year, which would increase further if subsidies were added to the list for which however, complete figures were not available as the State had not opened a distinct head to capture the expenditure on explicit subsidies. Decrease in the proportion of capital expenditure on Social and Economic Services to total expenditure and also revenue expenditure on operation and maintenance of the existing Social and Economic Services during the current year over the previous year indicated a decline in the quality of services. These trends in expenditure indicated the need for changes in allocative priorities.

A Sinking Fund for amortization of loans had not been set up by the State Government. The annual incremental guarantees were within the limit fixed under the FRBM Act and the ratio of total liabilities to GSDP, although within the ceiling limit of 40 *per cent* prescribed by FRBM Act 2005 continued to increase due to persistent fiscal deficits till the current year.

The maturity profile for repayment of about 14 *per cent* of the State's debt was not available as information had not been received from the State Government/Reserve Bank of India. It is critical to have clarity on the repayment schedule of debts. During the current year, internal debt redemption was 83 *per cent* of fresh debt receipts and redemption of GOI loans was 98 *per cent* while in the case of other obligations, repayments were 102 *per cent* of the fresh receipts, indicating that the fresh debt receipts were mainly utilised for repayment of debt.

The average return on the investment made by the Government was 0.52 *per cent* during the last three years while the Government paid an average interest rate of 7.61 *per cent* on its borrowings during 2006-09. Interest receipts as a percentage of outstanding loans and advances was meagre as against interest payments to outstanding fiscal liabilities of the State Government, resulting in a difference of 6.29 *per cent* between interest payments and interest receipts.

► 1.11 Recommendations

- Arrears of revenue amounting to Rs 765 crore as on 31 March 2009 may be got realized by strengthening the tax recovery measures.
- State budget should have distinct head for subsidies so that actual expenditure on explicit subsidies incurred by the Government is captured.
- The Government needs not only to invest its high cost borrowings more judiciously to get better returns but also address the losses on account of various sick units by their restructuring and rehabilitation and/or by considering disinvestment of such units.
- The increasing fiscal liabilities accompanied with negligible rates of return on Government investments and inadequate recovery of interest on loans and advances might put fiscal stress on the State in the medium to long run unless suitable measures are initiated to make the investments including loans and advances, commercially viable, compress the Non-Plan revenue expenditure and mobilize additional resources both through tax and non-tax sources in the ensuing years.
- The expenditure pattern in the education and health sectors needs correction in the ensuing years as per the norms of the Twelfth Finance Commission according to which the Non-Plan salary expenditure in these sectors should increase only by five to six *per cent* while non-salary expenditure under Non-Plan heads should increase by 30 *per cent* per annum during the award period.
- A Sinking Fund for amortization of loans, including loans from bank, liabilities on account of NSS etc. has not been set up by the State Government as per recommendation of the Twelfth Finance Commission.
- A system has to be put in place to ensure proper accounting of GOI funds that are transferred directly to State implementing agencies.
- No information in respect of incomplete projects was received from the State Government. A system of providing such information to the Accountant General may be ensured by the State Government. Transparency in the status of incomplete projects along with complete details of revised costs and reasons for delay will go a long way in avoiding time and cost over runs.