Chapter I

Finances of the State Government

This chapter provides a broad perspective of the finances of the Government of Manipur 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.

1.1 Summary of Current Year's Fiscal Transactions

The table below presents the summary of the State Government's fiscal transactions during the current year (2008-09) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations

(Rupees in crore)

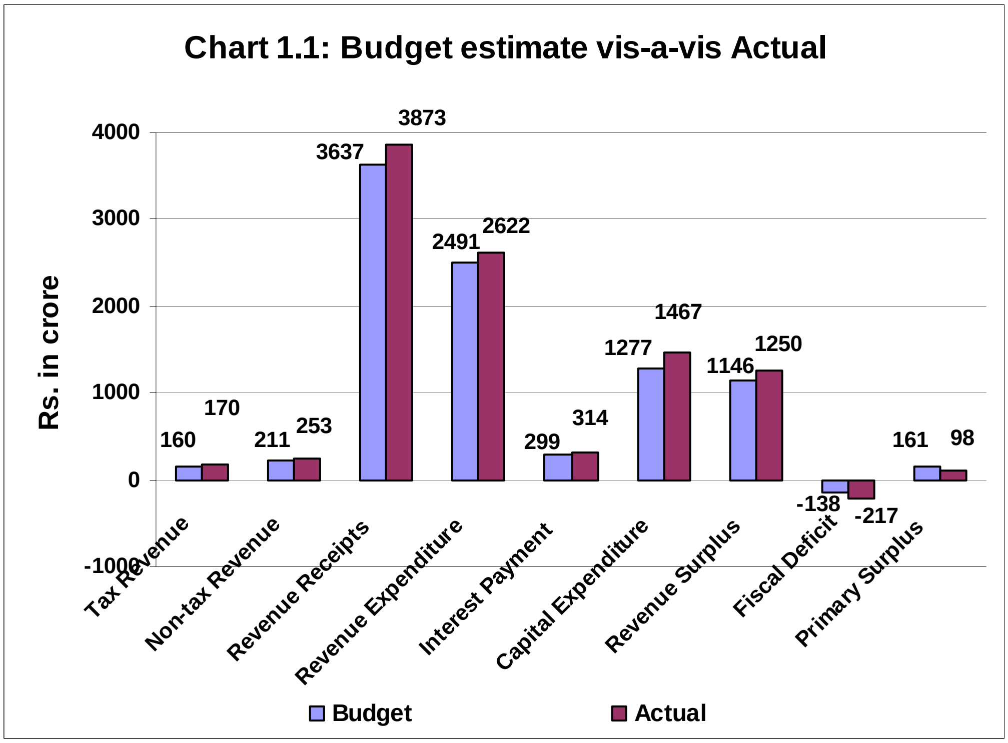
2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
Section-A: Revenue					**Non - Plan**	**Plan**	**Total**
3,508.27	Revenue receipts	3,872.62	2,292.52	Revenue expenditure	2,132.23	490.05	2,622.28
147.45	*Tax revenue*	*170.07*	*931.94*	*General services*	*1,091.03*	*3.58*	*1,094.61*
164.71	*Non-tax revenue*	*253.46*	*718.23*	*Social services*	*571.58*	*231.47*	*803.05*
550.40	*Share of Union Taxes/ Duties*	*580.81*	*642.35*	*Economic services*	*469.62*	*255.00*	*724.62*
2645.71	*Grants from Government of India*	*2,868.28*	-	*Grants-in-aid and Contributions*	-	-	-
Section-B: Capital							
-	Misc. Capital Receipts	-	1,107.92	Capital Outlay	3.01	1463.79	1,466.80
2.29	Recoveries of Loans and Advances	0.66	7.97	Loans and Advances disbursed	0.34	0.74	1.08
261.01	Public Debt receipts*	314.54	307.75	Repayment of Public Debt*			309.79
-	Contingency Fund	-	-	Contingency Fund			-
2481.01	Public Account receipts	2,847.66	1,953.25	Public Account disbursements			2,559.71
(-) 42.94	Opening Cash Balance	540.23	540.23	Closing Cash Balance			616.05
6,209.64	**Total**	**7,575.71**	**6,209.64**	**Total**			**7,575.71**

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

Following are the significant changes during 2008-09 over the previous year:

- Revenue receipts grew by Rs.364.35 crore (10 *per cent*) over the previous year. The increase was mainly contributed by tax revenue (Rs.23 crore), Non-tax revenue (Rs.89 crore), State's share of Union Taxes and Duties (Rs.30 crore) and Grants-in-aid from Government of India (Rs.223 crore). The revenue receipts at Rs.3,873 crore is, however, higher by Rs.641 crore than the assessment made by the State Government in its Fiscal Correction Path (FCP) (Rs.3,232 crore), but lower by Rs.236 crore than the assessment made in its Medium Term Fiscal Policy Statement (MTFPS) (Rs.3,637 crore) for the year 2008-09.
- Revenue expenditure and Capital expenditure increased by Rs.330 crore (14 *per cent*) and Rs.359 crore (32 *per cent*) respectively over the previous year. The revenue expenditure was higher by Rs.185 crore than the FCP (Rs.2,437 crore) and by Rs.131 crore than the MTFPS (Rs.2,491 crore). Capital expenditure was higher by Rs.353 crore than the FCP (Rs.1,114 crore) but lower by Rs.131 crore than the MTFPS (Rs.1,598 crore);
- Disbursement of Loans and Advances and recoveries of the same decreased by Rs.7 crore (86 *per cent*) and Rs.1.63 crore (71 *per cent*) respectively over the previous year;
- Public Debt receipts and repayments increased by Rs.54 crore (21 *per cent*) and Rs.2 crore (1 *per cent*) respectively over the previous year; thus, net receipts increased by Rs.52 crore;
- Public Accounts receipts and disbursements increased by Rs.367 crore (15 *per cent*) and Rs.606 crore (31 *per cent*) over the previous year. Thus, net receipts decreased during the year by Rs.239 crore; and
- Cash balance of the State increased by Rs.76 crore (14 *per cent*) over the previous year.

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters during 2008-09.



The above chart depicts that Revenue Receipts exceeded the budget estimate by Rs.236 crore and Revenue expenditure exceeded the budget estimate by Rs.131 crore, resulting Revenue Surplus of Rs.1,250 crore against budget estimate of Rs.1,146 crore. However, due to excess expenditure on account of Interest payment and Capital expenditure *vis-à-vis* budget estimate, the fiscal deficit exceeded its budget projection by Rs.79 crore. The performance of the State during 2008-09 in terms of key fiscal targets set for selected variables laid down in the Fiscal Responsibility and Budget Management Act, 2005 (FRBM), Fiscal Correction Path (FCP) and Medium Term Fiscal Policy Statement (MTFPS) *vis-à-vis* achievements are given in the table below.

Table 1.2
Trends in Major fiscal parameters/variables *vis-à-vis* projections for 2008-09

(Rupees in crore)

Fiscal variables	**Targets as per FRBM Act**	**Projections made in**		**Actual**
		FCP	**MTFPS**	
Revenue Deficit	0.00 (by 31.3.2009)	795.39	1,145.82	1,250.34
Fiscal Deficit	--	(-) 18.88	(-) 137.60	(-) 216.88
Fiscal Deficit/ GSDP *(per cent)*	3 *per cent* of GSDP (by 31.3.2009)	0.34	1.64	3.42
State's outstanding guarantees	Not to exceed thrice the State's own tax revenue receipts of the second preceding year i.e. Rs.364.71 crore.	87.34	-	274
Salary expenditure	35 *per cent* of revenue expenditure net interest payment and pension i.e. Rs.714.36 crore.	866.58	1,011.43	1,094.75

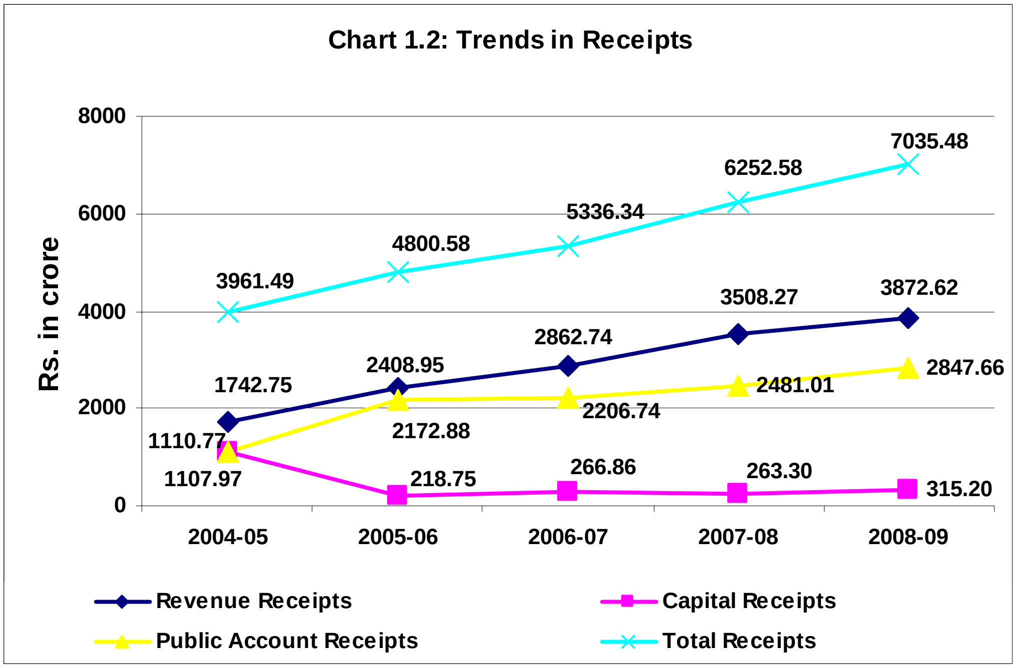
The above table reveals that except for containing Revenue Deficit and State's guarantees *vis-à-vis* FRBM targets, none of the FRBM/FCP/MTFPS targets could be achieved. *Fiscal surplus (Rs.102 crore) of last year made a turn around this year to a fiscal deficit of Rs.217 crore. This was mainly due to increase in expenditure by Rs.683 crore while revenue receipts could increase by Rs.364 crore only. The GSDP of the State was not able to match the pace of expenditure and therefore fiscal deficit as percentage of GSDP could not achieve none of the targets set by the Government in their FRBM Act/FCP and MTFPS.*

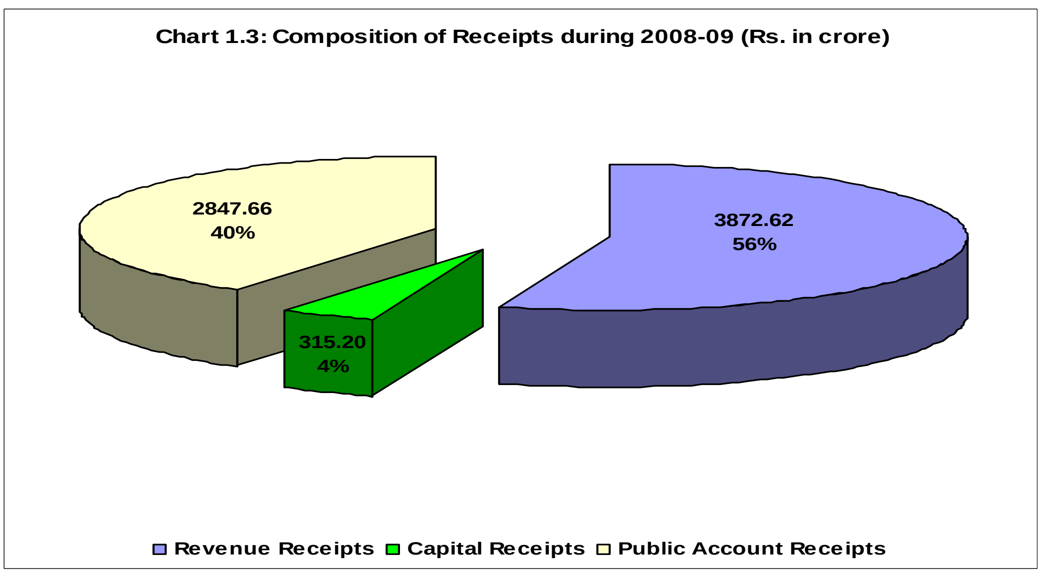
1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

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

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





- Revenue Receipts of the State increased by 122 *per cent* from Rs.1,743 crore in 2004-05 to Rs.3,873 crore in 2008-09.
- Tax revenue remained stagnant at about four *per cent* of Revenue Receipts whereas non-tax revenue increased from 4 *per cent* (2004-05) to 7 *per cent* (2008-09) of the total Revenue Receipts.

- State's share of Union taxes and duties and Grants-in-aid from GoI contributed about 90 *per cent* of the Revenue Receipts during 2004-09 and thus remained the main contributor of Revenue Receipts of the State.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[1] for the implementation of various schemes/programmes in social and economic sectors recognized as critical especially for human and social development of population. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are understated. During 2008-09, the Government of India has transferred an amount of around Rs.643 crore[2] to the Implementing Agencies. Significant amount released for major programmes/schemes are detailed in the table below:

Table-1.3: Funds transferred directly to State Implementing Agencies

(Rs. in crore)

Sl. No.	Programme/Scheme	Implementing Agency in the State	Total fund released by the GoI during 2008-09
1	National Rural Employment Guarantee Scheme (NREGS)	Project Director, District Rural Development Agencies	365.56
2	National Rural Health Mission (NRHM)	Manipur State Health Society	89.54
3	Pradhan Mantri Gram Sadak Yojana (PMGSY)	State PMGSY Implementing Agencies	20.00
4	Indira Awaj Yojana (IAY)	District Rural Development Agencies	16.45
5	Integrated Watershed Management Programme DPAP, DDP, IWDP & DLR	District Rural Development Agencies	11.27
6	National AIDS Control including STD Control	Manipur State AIDS Control Society	11.06
7	National Afforestation Programme	District Forest Department	9.51
8	Swarnajayanti Gram Swarojgar Yojana (SGSY)	District Rural Development Agencies	6.77
9	National Bamboo Mission	Principal Chief Conservator of Forest	6.22
10	Member of Parliament Local Area Development Scheme (MPLADS)	District Authority	6.00
11	District Rural Development Agencies (DRDA) Administration	District Rural Development Agencies	4.71
12	Swarna Jayanti Shahari Rozgar Yojana (SJSRY)	District Rural Development Agencies	4.46
13	Sharva Siksha Abhiyan (SSA)	State Mission Authority	3.21
	Total		**554.76**

Source: Website of Controller General of Accounts.

The above table shows that an amount of Rs.365.56 crore (about 57 *per cent* of the total funds transferred) was given for National Rural Employment Guarantee Programme and Rs.89.54 crore (about 14 *per cent*) for National Rural Health Mission. With the transfer of an amount of around Rs.643 crore directly by GoI to

[1] State Implementing Agency includes any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA and State Health Mission for NRHM *etc*.

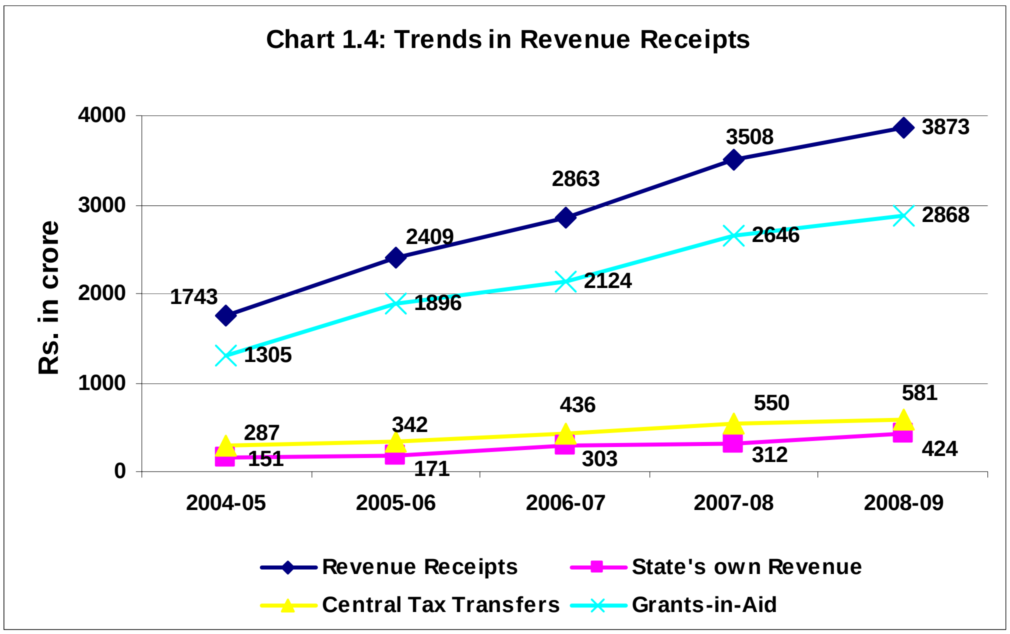
[2] Information as obtained from the website of Controller General of Accounts

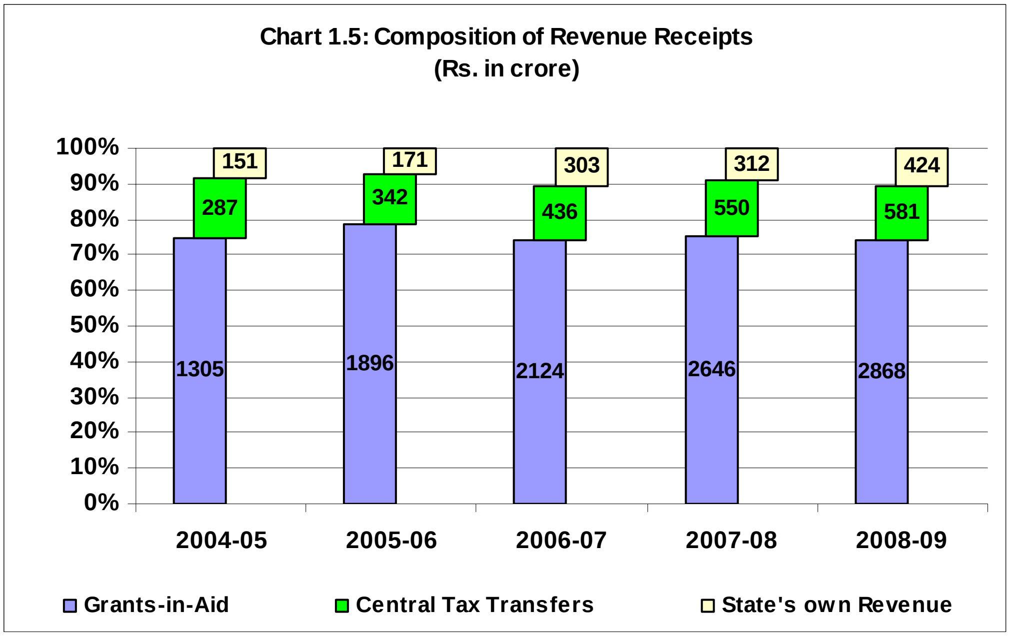
the State Implementing Agencies, the total availability of State resources during 2008-09 had increased from Rs.7,035.48 crore to Rs.7,678.48 crore during the current year.

Direct transfers from the GoI to the State implementing agencies run the risk of poor oversight. Unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its 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.





The trends in revenue receipts relative to GSDP are presented in the table below:

Table 1.4: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	**1,743**	**2,409**	**2,863**	**3,508**	**3,873**
Rate of growth of RR (*per cent)*	22.75	38.21	18.85	22.53	10.40
GSDP (Rupees in crore)	4568	5065	5343	5704	6344
Rate of growth of GSDP (*per cent)*	14.80	10.88	5.49	6.76	11.22
R R/GSDP (*per cent)*	38.16	47.56	53.58	61.50	61.05
Buoyancy Ratios[3]					
Revenue Buoyancy w.r.t GSDP	1.54	3.51	3.43	3.33	0.93
State's Own Tax Buoyancy w.r.t GSDP	1.29	1.59	5.18	3.03	1.39
Revenue Buoyancy with reference to State's own taxes	1.19	2.21	0.66	1.10	0.66

(Source: Directorate of Economics and Statistics)

Revenue growth during 2005-08 was more than three times that of GSDP growth. However, during 2008-09 the Revenue buoyancy was less than one as Revenue Receipts grew by 10.40 *per cent* during the current year as compared to GSDP growth of 11.22 *per cent*.

State's Own Tax buoyancy with respect to GSDP increased from 1.59 in 2005-06 to 5.18 in 2006-07 mainly due to increase in Own Tax Revenue collection due to introduction of VAT. The State's Own Tax during 2007-08 remained buoyant and was more than three times that of GSDP growth. However, due to sharp increase in GSDP growth from 6.76 *per cent* from last year to 11.22 *per cent* during the current year, the Own Tax Revenue increased by only 1.39 *per cent* for every one

[3] 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*.

per cent increase in GSDP, indicating less buoyancy of the State's Own Tax during the current year as compared to GSDP.

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 and Central assistance for plan schemes *etc.*, the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

The contribution of Tax revenue to the Total Revenue Receipts of the State ranged around 4 *per cent* during 2004-09. Tax revenue increased by Rs.23 crore from Rs.147 crore in 2007-08 to Rs.170 crore in 2008-09. The increase in tax revenue during 2008-09 over the previous year was mainly due to increase of Rs.21 crore in sales tax (VAT).

Non-tax Revenue as a percentage of Total Revenue increased marginally from 3 *per cent* to about 6 *per cent* since 2006-07 due to devolution of Rs.37.54 crore each year as debt waiver under DCRF[4]. Non-tax Revenue increased by Rs.89 crore over the previous year mainly due to increase in realization of interest on cash balance investment (Rs.12 crore), Miscellaneous General Services (Rs.39 crore) and Power (Rs.26 crore).

Central tax transfers increased by Rs.31 crore from Rs.550 crore in 2007-08 to Rs.581 crore in 2008-09 and constituted 15 *per cent* of the Revenue Receipts of the year. The increase was mainly due to increase in Corporation tax (Rs.16 crore), Service tax (Rs.8 crore) and Custom (Rs.7crore).

Grants-in-aid constituted the major chunk of Revenue Receipts of State and contributed 74 *per cent* of its Revenue Receipts. The Grants-in-aid was enhanced by Rs.222 crore (8.39 *per cent*) from Rs.2,646 crore in 2007-08 to Rs.2,868 crore in 2008-09 mainly due to increase in grants for State plan scheme (Rs.73.33 crore), Centrally Sponsored Plan Scheme (Rs.124 crore) and grants for non-plan schemes (Rs.35 crore) offset by decrease in special scheme for North East Council (Rs.15.17 crore).

Increase in State Plan schemes was mainly due to increase in receipts of grants under Block Grants (Rs.96.05 crore). Grants under Centrally Sponsored Plan schemes increased due to receipt of increased grants under Ministry of Tourism (Rs.28.75 crore), Ministry of Minority Affairs (Rs.31.56 crore), Rural Electrification (Rs.27.19 crore), National Building Construction Corporation Ltd. (Rs.18.79 crore), Ministry of Housing and Urban Poverty Alleviation (Rs.9.74 crore).

The performance of the State in regard to mobilization of its own resources *vis-à-vis* assessments made by the TFC and the State Government in its FCP and MTFPS for the year 2008-09 is as under:

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[4] As a result of Debt Consolidation under 'Debt Consolidation and Relief Facility (DCRF) Scheme', the State received a debt waiver of Rs.37.54 crore during 2008-09.

(Rs. in crore)

Parameters	Assessment made by TFC	FCP	MTFPS	Actual
Tax Revenue	213.18	133.47	160.08	170.07
Non-Tax Revenue	58.34	143.42	211.38	253.46

The State could achieved the targets of Tax and Non-tax Revenue collection set in TFC/FCP/MTFPS except in case of Tax Revenue *vis-à-vis* TFC projection, which felt short by Rs.43.11 crore (25 *per cent)*.

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

During 2008-09, evasion of tax amounting to Rs.116.48[5] crore due to non/short levy (including penalty) of Sales tax/VAT, show tax and professional tax, loss of revenue (energy charges) and non-realization of registration fee in 109 cases. The Government accepted the audit observations for an amount involving Rs.3.81 crore, out of which Rs.5.90 lakh had been recovered (December 2009).

1.3.3 Revenue Arrears

As of 31 March 2009, arrears of revenue amounted to Rs.10.56 crore (Sales tax – Rs.1.23 crore and Land revenue – Rs.9.33 crore), out of which Rs.5.74 crore of land revenue was outstanding for more than 5 years. Reasons for arrears of revenue were not on record.

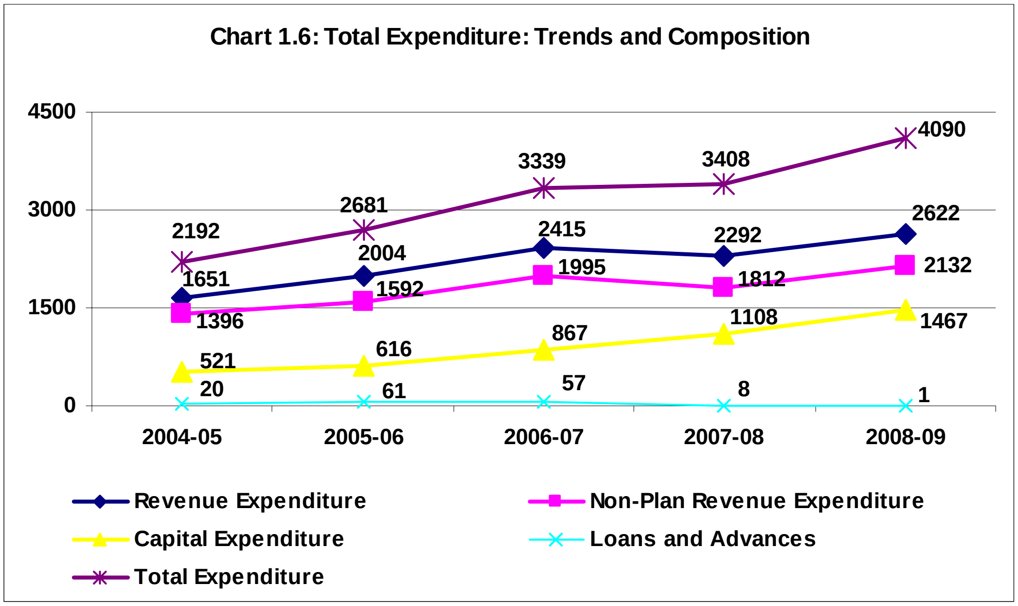
1.4 Application of resources

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

1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09).

[5] Rs.111.68 crore in 101 cases through Inspection Report and Rs.4.80 crore in 8 cases through Performance Reviews.



Statement-12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs.2,192 crore in 2004-05 to Rs.4,090 crore in 2008-09 at an annual average rate of 21.64 *per cent* and increased by 20.01 *per cent* from Rs.3,408 crore in 2007-08 to Rs.4,090 crore in 2008-09. The Revenue expenditure increased from Rs.1,651 crore in 2004-05 to Rs.2,622 crore in 2008-09 at an annual average rate of 14.70 *per cent*. Of the Revenue expenditure, Non-Plan Revenue expenditure increased from Rs.1,396 crore in 2004-05 to Rs.2,132 crore in 2008-09 at an annual average rate of 13.18 *per cent*. Capital expenditure increased from Rs.521 crore in 2004-05 to Rs.1,467 crore in 2008-09 at an annual average rate of 45.39 *per cent*.

The break up of total expenditure during 2008-09 in terms of plan and non-plan expenditure reveals that while the share of plan expenditure constituted 47.80 *per cent* (Rs.1,954 crore), the remaining 52.20 *per cent* (Rs.2,135 crore) was non-plan expenditure of which Rs.2,132 crore was Non-plan Revenue expenditure. The increase in Total expenditure by Rs.682 crore during 2008-09 over the previous year was due to increase in Revenue expenditure by Rs.330 crore and Capital expenditure by Rs.359 crore offset by decrease in disbursement of loans and advances by Rs.7 crore.

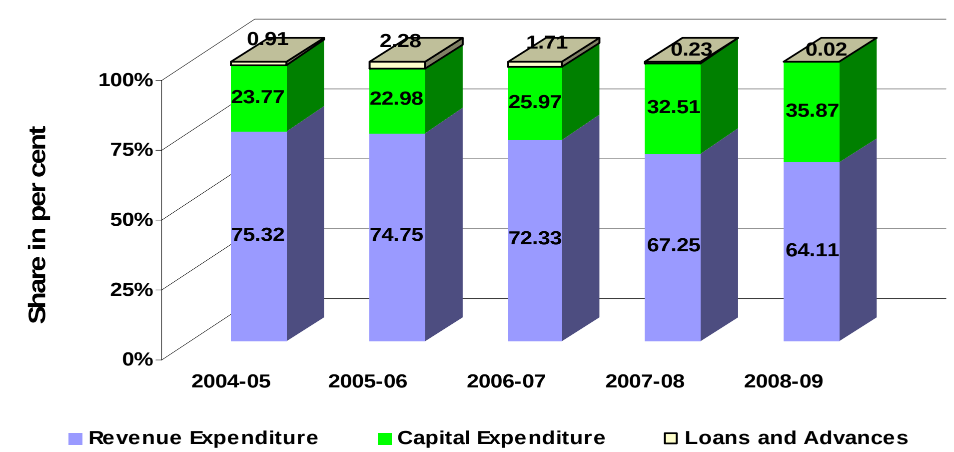
The increase in Revenue expenditure by Rs.330 crore during 2008-09 over the previous year was mainly due to increase in expenditure on Government Primary Schools (Rs.28.36 crore), Government Secondary Schools (Rs.15.66 crore), Urban and Rural Health Service (Allopathy) (Rs.10.96 crore), Housing (General Pool Accommodation) (Rs.9.02 crore), Non-plan Assistance to Local Bodies, Corporations, Urban Development Authorities *etc*. (Rs.17.92 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (Rs.8.14 crore), Child Welfare (CSS) (Rs.9.78 crore) and Welfare of aged, infirm and destitute (Plan) (Rs.10.51 crore) in Social Sector and Special Area Programme (Rs.36.05

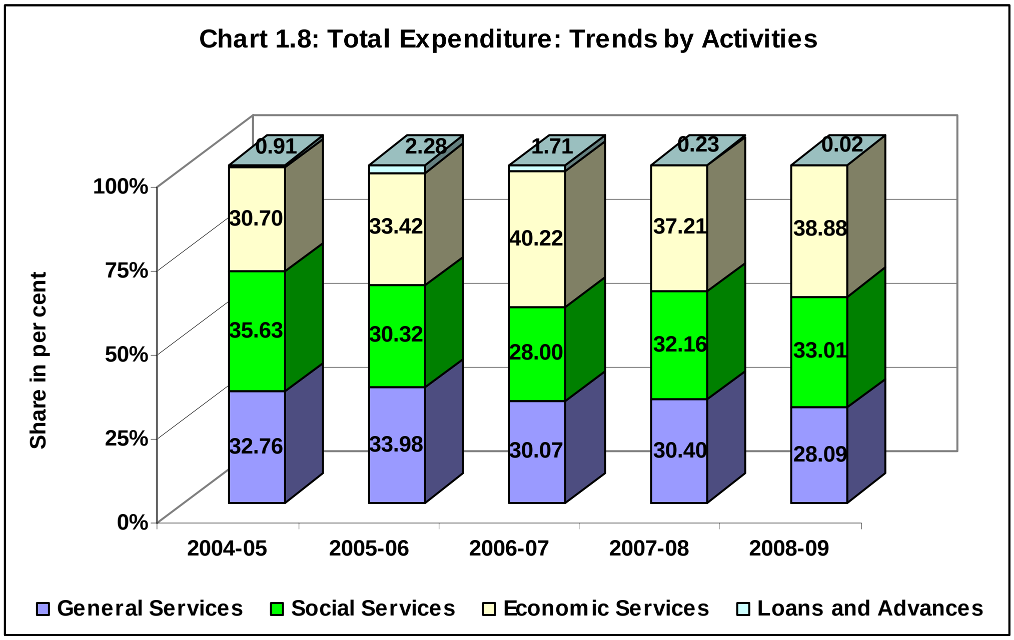
crore) and Energy (Rs.33.87 crore) in Economic Sector. The increase in Capital expenditure by Rs.359 crore over the previous year was mainly due to Major Irrigation (Plan) (Rs.92.64 crore), Urban and Rural Water Supply (Rs.69.57 crore), Flood Control (Rs.53.38 crore), Sericulture Industries (Rs.47.45 crore), Other Government Residential Buildings (Rs.40 crore), Welfare of Minorities (Rs.30.12 crore) and State Capital Development (Rs.24.43 crore), offset by construction of General Pool Accommodation (Rs.52.77 crore) and Art and Culture (Rs.31.46 crore).

Audit of Accelerated Irrigation Benefits Programme covering Major Irrigation Projects in the State and Accelerated Rural Water Supply Programme, however, revealed that both the major irrigation projects viz. Thoubal Multipurpose Project and Khuga Multipurpose Project have not been completed for more than 20 years and most of the rural water supply schemes have not been successfully implemented. Thus, the increase in capital expenditure is mainly due to increase in cost overrun of projects/schemes that remained incomplete for years altogether, without actually creating any concrete assets.

The decrease in loans and advances was mainly due to decrease in disbursement of other loans to Village Industries by Rs.4.12 crore and to Government servants by Rs.3.51 crore. The composition of total expenditure in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8.**

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





In terms of activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, Grants-in-aid and Loans and Advances. Expenditure on General Services and interest payments, which are considered as non-developmental, together accounted for 28.09 *per cent* in 2008-09 as against 30.40 *per cent* in 2007-08. On the other hand, development expenditure i.e., expenditure on Social and Economic Services together accounted for 71.89 *per cent* in 2008-09 as against 69.37 *per cent* in 2007-08. This indicates that there was decrease in non-developmental expenditure and increase in developmental expenditure in comparison to the previous year.

Revenue expenditure had predominant share in Total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure of the State increased from Rs.1,651 crore in 2004-05 to Rs.2,622 crore in 2008-09 at an annual average rate of 14.70 *per cent*. *A comparison of Non-Plan Revenue Expenditure (NPRE) vis-à-vis assessment made by TFC/FCP/MTFPS revealed that NPRE could not be contained within the projections,* as shown in the table below:

(Rupees in crore)

	TFC	FCP	MTFPS	Actual
Non-Plan Revenue Expenditure	1,690.15	1,913.61	1,934.50	2,132.23

NPRE increased by Rs.320 crore from Rs.1,812 crore from 2007-08 to Rs.2,132 crore during 2008-09. The increase was mainly due to Pension and other retirement benefits (Rs.61.31 crore), Police (Rs.56.24 crore), Interest on internal *debt (Rs.28.42 crore) and Government Primary Schools (Rs.28.36 crore) and Government Secondary Schools (Rs.15.66 crore).*

The Plan Revenue Expenditure (PRE) increased by Rs.10 crore from Rs.480 crore in 2007-08 to Rs.490 crore in 2008-09, mainly due to increase in Social Welfare and Nutrition (Rs.22.38 crore), Special Areas Programmes (Rs.36.05 crore) partially offset by decrease in Agriculture and Allied activities (Rs.44.02 crore) and Sports and Youth Services (Rs.4.49 crore).

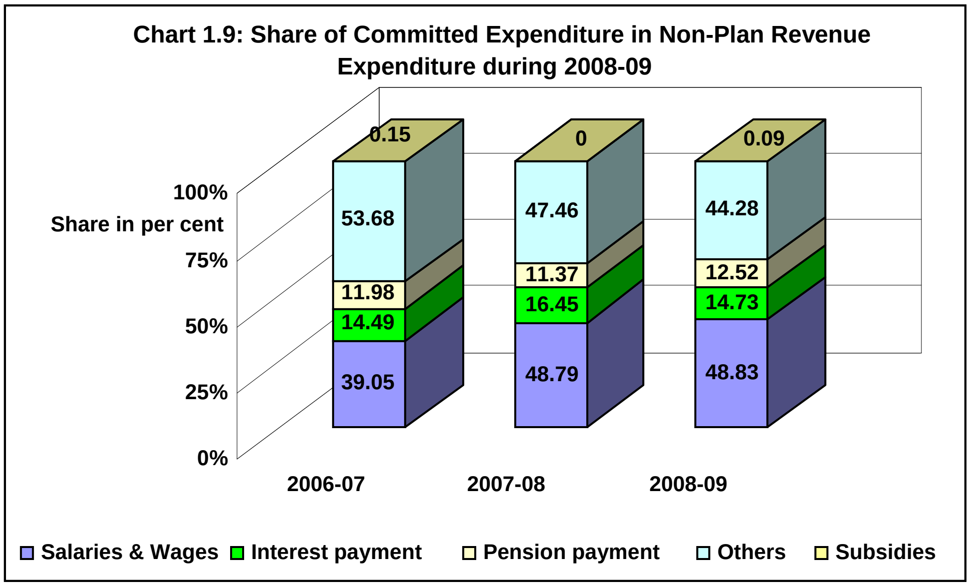
1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. The **table below** and **Chart 1.9** present the trends in the expenditure on these components during 2004-09.

Table-1.5: Components of Committed Expenditure

(Rupees in crore)

Components of Committed Expenditure	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	
					BE	**Actual**
Salaries & Wages **,** o*f which*	731 (41.94)	872 (36.20)	813 (28.40)	928 (26.45)	1015 (27.91)	1095 (28.27)
Non-Plan Head	*702*	*837*	*779*	*884*	*968*	*1041*
Plan Head	*29*	*35*	*34*	*44*	*47*	*54*
Interest Payments	266 (15.26)	238 (9.88)	289 (10.09)	298 (8.49)	299 (8.22)	314 (8.11)
Expenditure on Pensions	182 (10.44)	168 (6.97)	239 (8.35)	206 (5.87)	218 (5.99)	267 (6.89)
Subsidies	3 (0.17)	3 (0.12)	3 (0.01)	-	6 (0.16)	2 (0.05)
Other Components	469 (26.91)	723 (30.01)	1,071 (37.41)	860 (24.52)	953 (26.20)	944 (24.38)
Total	**1,651 (94.72)**	**2,004 (83.91)**	**2,415 (84.35)**	**2,292 (65.34)**	**2491 (68.49)**	**2,622 (67.70)**
Figures in the parentheses indicate percentage to Revenue Receipts						



Salaries alone accounted for more than 28 *per cent* of Revenue Receipts of the State during the year. It increased by about 18 *per cent* from Rs.928 crore in 2007-08 to Rs.1,095 crore in 2008-09. Salary expenditure under Non-plan head during 2008-09 increased by Rs.157 crore (17.76 *per cent*) over the previous year whereas the salary expenditure on plan head increased by Rs.10 crore (22.73 *per cent*) over the previous year. *Expenditure on salaries during 2008-09 exceeded the assessment of the State Government in its FCP (Rs.867 crore) by Rs.228 crore and by Rs.84 crore against MTFPS projection (Rs.1,011 crore). The expenditure on salaries was 53.66 per cent of the Revenue expenditure, net of interest payments and pension as against TFC norm and FRBM Act target of 35 per cent and was nearly three times the State's own Revenue resources (Tax and Non-Tax Revenue), requiring special attention of the Government to confine it within the limits set by them.*

Pension payments alone accounted for nearly 7 *per cent* of Revenue receipts of the State during 2008-09 and increased by Rs.61 crore (30 *per cent*) from Rs.206 crore last year to Rs.267 crore during 2008-09. While the pension payment exceeded the assessment by the Government in its FCP (Rs.259.98 crore) and MTFPS (Rs.224.94 crore), it was less than the normative assessment of TFC (Rs.269.89 crore). Increase of Rs.61 crore in pension payments during 2008-09 over the previous year was mainly due to increase in expenditure under superannuation and retirement allowances (Rs.16.54 crore), leave encashment benefits (Rs.14.81 crore), commutation (Rs.11.20 crore) and family pension (Rs.10.97 crore).

The State Government has adopted the new Restructured Defined Contribution Pension Scheme of the GoI *mutatis mutandis* in respect of new entrants to the State's service with effect from 1 January 2005. The contribution of the State Government employees covered under the new scheme increased from a closing balance of Rs.1.18 crore in 2006-07 to Rs.10.71 crore in 2008-09. *However, the State Government had not contributed a matching share of the contribution of* *employees. Thus, the liability of the Government would be increased by Rs.10.71 crore apart from Rs.1.09 crore as interest on the closing balance.*

Interest payments alone accounted for nearly 8 *per cent* of the Revenue Receipts during 2008-09 and increased by Rs.16 crore (5 *per cent*) from Rs.298 crore last year to Rs.314 crore during 2008-09. The interest payment exceeded the assessment made by the State Government in its FCP (Rs.298.37 crore) and MTFPS (Rs.299.12 crore) but was less than the normative assessment of TFC (Rs.399.36 crore). Increase of Rs.16 crore was mainly due to appropriation to sinking funds (Rs.12.66 crore), increase in payment of interest on NSS funds (Rs.35.10 crore), partially offset by reduction in expenditure on interest on loans for Non-plan schemes (Rs.21.15 crore) and Management of Debt (Rs.7.79 crore). The major sources of borrowings of the State Government were (i) Market loans (Rs.1,452.45 crore), (ii) Loans from National Small Savings Fund of Central Government (Rs.857.83 crore), (iii) General Provident Funds (Rs.767.02 crore) and (iv) Non-Plan Loans from Central Government (Rs.606.49 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 the table below:

Table 1.6: Financial Assistance to Local Bodies etc.

(Rupees in crore)

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities, *etc*.)	45.19	75.71	40.20	40.50	30.57	29.75
Municipal Corporations and Municipalities	2.12	1.84	0.87	1.93	9.20	19.90
Development Agencies	Nil	Nil	Nil	Nil	-	Nil
Hospitals and Other Charitable Institutions	Nil	Nil	Nil	Nil	-	Nil
Other Institutions	0.78	1.03	1.25	0.84	3.47	1.02
Total	**48.09**	**78.58**	**42.32**	**43.27**	**43.24**	**50.67**
Assistance as percentage of RE	2.91	3.92	1.75	1.89	1.73	1.94

The total assistance increased by Rs.7.39 crore from Rs.43.27 crore in 2007-08 to Rs.50.66 crore during the current year. Financial assistance to universities and educational institutions alone constituted 59 *per cent* of the total assistance of the State Government during 2008-09.

1.5 Quality of Expenditure

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

1.5.1 Adequacy of Public Expenditure

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

Table-1.7: Fiscal Priority and Fiscal capacity of the State during 2005-06 and 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	19.50	61.44	30.41	14.13
Manipur's Average (Ratio) 2005-06	57.13	66.02	30.32	22.98
All States/National Average* (Ratio) 2008-09	19.16	67.68	33.90	16.87
Manipur Average (Ratio)* 2008-09	64.47	71.87	33.01	35.86
Fiscal Capacity of the State	**DE#**	**SSE**	**CE**	
All States Average Per capita Expenditure 2005-06	3010	1490	692	
Manipur's per Capita expenditure (Amount in Rs.) in 2005-06	7696	3535	2678	
All States' Average per capita expenditure 2008-09	5,030	2,520	1254	
Manipur's per Capita Expenditure (Amount in Rs.) in 2008-09	12249	5626	6112	

* As *per cent* to GSDP
AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure
CE: Capital Expenditure.
Population of Manipur: 0.23 crore in 2005-06 and 0.24 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.
Data for Arunachal Pradesh has not been included in All States average.

The above table shows the fiscal priority given by the Government to different categories of expenditure in 2005-06 (the first year award period of TFC) and the current year (2008-09). In both the years, the State had much higher AE/GSDP ratio compared to All India Average. In DE and CE, the State's expenditure as a percentage of AE was much higher than the national average indicating that the State gave adequate priority to these two categories of expenditure. In SSE, however, the SSE/AE ratio was marginally lower than the national average in both these years. Hence, there is a need to step up the priority given to SSE.

The per capita expenditure in DE, SSE and CE of the State in both the years was higher than the national average primarily because of low population of 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 goods[6]. Apart from improving the allocation towards development expenditure[7], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.8** 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 1.9** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table-1.8: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actual
Development Expenditure (a to c)						
a. Development Revenue Expenditure	947 (43.20)	1,281 (47.78)	1,542 (46.18)	1,360 (39.91)	1,520 (40.24)	1,528 (37.36)
b. Development Capital Expenditure	507 (23.13)	428 (15.96)	402 (12.04)	482 (14.14)	1,219 (32.27)	1,412 (34.52)
c. Development Loans and Advances	20 (0.91)	60 (2.24)	52 (1.56)	4 (0.12)	7 (0.19)	1 (0.02)
Figures in parentheses indicate percentage to aggregate expenditure						

[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 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*.

[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.

Development Revenue Expenditure increased by Rs.168 crore from Rs.1,360 crore last year to Rs.1,528 crore during the current year. However, as a percentage of total expenditure, it decreased from 39.91 *per cent* to 37.36 *per cent* during 2008-09. Development Capital Expenditure shot up by Rs.930 crore from Rs.482 crore last year to Rs.1,412 crore during 2008-09, which resulted in constituting a significant 34.52 *per cent* of total expenditure during the current year from 14.14 *per cent* last year. Compared to Development Loans and Advances of Rs.4 crore 2007-08, only Rs.1 crore was given during 2008-09.

Table 1.9 –Efficiency of Expenditure Use in Selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2007-08		2008-09	
	Share of CE to TE	Share of S&W in RE	Share of CE to TE	Share of S&W in RE
Social Services (SS)				
General Education	11.59	66.09	13.09	77.08
Health and Family Welfare	39.95	88.48	30.75	85.83
WS, Sanitation, & HUD	83.06	62.52	82.12	36.18
Total (SS)	**34.55**	**56.67**	**40.50**	**61.14**
Economic Services (ES)				
Agri & Allied Activities	1.67	40.57	14.66	54.89
Irrigation and Flood Control	80.54	75.85	88.02	74.07
Power & Energy	49.50	26.88	37.25	25.25
Transport	81.73	34.33	81.29	34.81
Total (ES)	**49.17**	**34.09**	**54.41**	**35.33**
Total (SS+ES)	**42.41**	**46.01**	**48.02**	**48.90**

TE: Total Expenditure inclusive of loans and advances of each sector/sub-sector/head; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.

Share of capital expenditure as ratio of total expenditure in respect of General Education increased from 11.59 *per cent* to 13.09 *per cent*. Share of Capital expenditure in respect of Health and Family Welfare decreased from 39.95 *per cent* to 30.75 *per cent* mainly due to decrease in Community Health Centre (Rs.26.90 crore) partially offset by increase in Primary Health Centres (Rs.5.30 crore) and Hospitals and dispensaries (Rs.9.94 crore). Though share of Capital expenditure in Water Supply, Sanitation and Housing and Urban Development remained stagnant around 82 *per cent*, there was increase of Rs.171.90 crore in this sub-sector mainly due to increase in Capital outlay on Urban and Rural Water Supply (Rs.69.57 crore), Capital outlay on Urban Development (Rs.63.24 crore) and Capital outlay on Housing (Rs.41.30 crore). Share of Capital expenditure in Agriculture and Allied Activities increased from 1.67 *per cent* to 14.66 *per cent* mainly due to increase in Capital Outlay on Social and Water Conservation (Rs.22.50 crore). In Irrigation and Flood Control, the increase of capital expenditure as a percentage of total expenditure from 80.54 *per cent* last year to 88.02 *per cent* this year was mainly due to increase in Capital outlay on Major Irrigation (Rs.92.64 crore) and Flood Control Projects (Rs.53.38 crore). The share in respect of Power and Energy declined from 49.50 *per cent* last year to 37.25 *per cent* in the current year mainly due to decrease of Plan Capital outlay on power projects by Rs.43.30 crore.

The increase in capital expenditure was mainly due to sinking of resources in projects that remained incomplete for more than 20 years or which had not been implemented successfully.

Under Social Services, salary and wages as percentage of Revenue expenditure under that sector increased from 56.67 *per cent* from last year to 61.14 *per cent* during 2008-09 and under Economic Services, it increased marginally from 34.09 *per cent* to 35.33 *per cent*. The overall percentage of salary and wages under these sectors increased from 46.01 *per cent* from last year to 48.90 *per cent* during 2008-09.

There has been an increase of expenditure under salary and wages head in the development sectors even though the 6th pay revision is yet to be implemented in the State. Once the award is implemented, the expenditure under this Head could increase significantly.

1.5.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

Performance reviews indicating the outlay-outcome relationship are *inter-alia* included in the State Audit Report. The effectiveness of the expenditure as brought out in performance reviews *viz.*, (i) Accelerated Irrigation Benefits Programme, (ii) Accelerated Rural Water Supply Programme and (iii) Transition from Sales Tax to Value Added Tax (VAT) taken up during 2008-09 are summarized below:

Box 1.1:- Accelerated Irrigation Benefits Programme

Accelerated Irrigation Benefits Programme was launched with the main objective of accelerating completion of on-going irrigation/multi-purpose projects on which substantial investment had already been made and beyond the resource capability of the State Government. Two major projects, one medium project and 453 minor irrigation projects in the State were included under AIBP during 2004-09. Till March 2009, no major and medium projects could be completed, however, only 413 minor irrigation projects were completed though substantial amount of investment of Rs.1,213.63 crore had been made on these projects. Against targeted irrigation potential of 81,264 hectares, only 41,130 hectares (51 *per cent*) had been created. Out of the irrigation potential created so far 61 *per cent* was from minor irrigation projects. Productivity of major crops in the State either remained stagnant or improved marginally during 2004-09, indicating that the programme had little impact on agriculture production of the State. No evaluation studies were carried out to ascertain the success parameters and utilisation of the potential created in the State. As such, the objective of speedy development of irrigation potential and its eventual utilisation for the benefits of the farmers was not achieved to the desired extent in the State due to inherent deficiencies in planning, poor financial management, execution and monitoring of the projects.

Box 1.2:- Accelerated Rural Water Supply Programme

The Accelerated Rural Water Supply Programme aimed at accelerating the coverage of uncovered habitations in rural areas with provision of safe and adequate drinking water, besides revival of traditional water sources. A performance review of the programme revealed poor planning, execution of works with time and cost overrun, inadequate monitoring of quality of water and short achievement of targeted objectives. Adequate drinking water was yet to be provided to 68 *per cent* habitations as of March 2009. Despite spending Rs.272 crore during 2004-09 on the programme, no evaluation studies had been carried out to ascertain the extent of the achievement of the objectives of the programme.

Box 1.3:- Transition from Sales Tax to VAT System

A review on **"**Transition from Sales Tax to VAT System**"** revealed that no time limit was fixed by the department to bring all the eligible Pre-VAT dealers liable to be registered within the ambit of the VAT Act. Only 22 *per cent* of the dealers registered under repealed Sales Tax Act could be brought within the purview of the VAT Act. Important registers like "Register of receipt of returns", "Register of defaulters", "Register of casual dealers", "Registers to watch the recovery of the arrears of tax, interest, penalty *etc*." under the repealed Act and the VAT Act were not maintained.

Seven dealers did not pay tax of Rs. 1.58 crore for the period from 2005-06 to 2007-08. No action was taken by the department to recover the dues. The dealers were also liable to pay interest of Rs. 1.22 crore. Two dealers had defaulted in the payment of tax of Rs. 1.51 crore along with the relevant returns for the period from 2005-06 to 2007-08. The penalty of Rs. 45.64 lakh though leviable was not levied. Value added tax of Rs.24.08 lakh was required to be deducted at source from the bill of a contractor dealer, however, Rs. 7.87 lakh only were deducted from the bill of the contractor. This resulted in short deduction of VAT of Rs. 16.21 lakh.

1.6 Financial Analysis of Government Expenditure and Investments

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

1.6.1 Incomplete projects

The department-wise information pertaining to incomplete projects of which the scheduled date of completion is already over as on 31 March 2009 is given in the table below:

Table 1.10: Department-wise Profile of Incomplete Projects

(Rs. in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cost Over Runs	Cum. actual exp. as on 31.3.2009
Irrigation	9	26	NA	NA	14
Power	24	222	330*	108	139
PWD	2	4	NA	NA	3
Water Supply	11	25	26*	1	15
Total	**46**	**277**	**356**	**109**	**171**

* In 10 cases each where revised cost had not been indicated, the original cost has been taken as revised cost.

As of 31 March 2009, there were 46 incomplete projects each costing Rs.1 crore and above, involving total budgeted cost of Rs.277 crore on which expenditure of Rs.171 crore has already been incurred. The works on these projects were started between 1989-90 and November 2007. Most of these incomplete works were of power project and constituted 52 *per cent* of the incomplete projects. Due to delay in completion of the projects, the intended benefits from these projects did not reach the beneficiaries in the State. The reasons for delay in completion of the projects were not on record.

1.6.2 Investment and returns

As of 31 March 2009, Government had invested Rs.176 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives. The average return on this investment was 0.02 *per cent* in the last five years while the Government paid an average interest rate of 7.47 *per cent* on its borrowings during 2004-09. Details are shown in the table below:

Table-1.11: Return on Investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rs. in crore)	162	173	173	174	176
Return (Rs. in crore)	0.08	*	-	0.05	-
Return *(per cent)*	0.05	-	-	0.03	-
Average rate of interest on Govt. borrowing *(per cent)*	9.88	6.81	7.14	6.84	6.69
Difference between interest rate and return *(per cent)*	9.83	6.81	7.14	6.81	6.69

* Only Rs.2,730

Investments as on 31 March 2009 were made in two statutory corporations, 15 Government companies and 45 co-operative banks and institutions. Major investments were made in Manipur State Road Transport Corporation (Rs.41.56 crore), Manipur Spinning Mills Corporation Ltd. (Rs.33.89 crore), Manipur Handloom and Handicrafts Development Corporation Ltd. (Rs.11.79 crore) and Manipur State Co-operative Bank Ltd. (Rs.21.99 crore). Of these, Manipur State Road Transport Corporation has been liquidated and Manipur Spinning Mills Corporation Ltd. is under liquidation process since June 2003. However, the liquidation of the company is yet to be completed as of January 2010, reason of which was not on record.

1.6.3 Loans and advances by State Government

In addition to investments in co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/ organizations. The table below presents the outstanding loans and advances as on 31 March 2009, interest receipts *vis-à-vis* interest payments during the last three years**.**

Table-1.12: 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	137.76	193.11	198.79	198.78
Amount advanced during the year	56.85	7.97	9.24	1.08
Amount repaid during the year	0.90	2.29	3.00	0.66
Closing Balance	**193.71**	**198.79**	**205.03**	**199.20**
Of which Outstanding balance for which terms and conditions have been settled				
Net addition	55.95	5.68	6.24	0.41
Interest Receipts	0.70	0.56	-	0.58
Interest receipts as *per cent* to outstanding Loans and Advances	0.42	0.28	-	0.29
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	7.14	6.84	-	6.46
Difference between interest payments and interest receipts (*per cent*)	6.72	6.56		6.17

Total amount of outstanding loans and advances as on 31 March 2009 was Rs.199 crore. Interest received against these loans and advances continued to be negligible and marginally improved from Rs. 0.56 crore in the previous year to Rs.0.58 crore in 2008-09. Against repayment of Rs.0.66 crore, an amount of Rs.1.08 crore was advanced during the current year. Major recipients of loans were for social security and welfare (Rs.130.34 crore), village and small industries (Rs.30.23 crore), Housing (Rs.18.13 crore) and co-operation (Rs.15.75 crore).

1.6.4 Cash Balances and Investment of Cash balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatch in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances from RBI has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three years average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by the RBI from time to time depending on the holding of Government securities. The limit for Normal Ways and Means Advances has been fixed at Rs.60 crore while Special Ways and Means Advances has been fixed up to a maximum of Rs.15.65 crore against the pledge of GoI securities.

The position of Ways and Means Advances and Overdraft is shown in the table below:

Table 1.13: Ways and Means Advances and Overdrafts

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Ways and Means Advance					
Availed in the year	191.24	90.90	—	38.79	—
Outstanding WMAs	54.83	—	—	-	—
Interest paid	1.22	2.51	—	0.03	—
Number of days	35	127	—	7	—
Overdraft					
Availed in the year	50.31	6,520.20	—	—	—
Number of days	119	44	—	—	—
Interest paid	9.16	1.99	—	—	—

The State did not avail of any overdraft facility since 2006-07 and during the last three years (2006-09) ways and means advances was taken only in the previous year. The trends in cash balances of the State indicate that during 2006-07 the State had a negative balance of minus Rs.42.93 crore. However, due to huge revenue surplus to the tune of Rs.1,216 crore, the State could achieve a huge closing balance of Rs.540.23 crore at the end of 2007-08. The position of closing cash balance further improved to Rs.616.05 crore during 2008-09.

In view of the improved cash position of the State, it is not advisable to accumulate large idle cash balances. The Government should identify a shelf of projects where the money can be productively invested. Alternatively, high cost loans can be identified and repaid so that debt servicing in future eases out.

The table below depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.14: Cash Balances and Investment of Cash balances

(Rs. in crore)

Particulars	As on 1 April 2008	As on 31 March 2009	Increase(+)/ Decrease(-)
Cash Balances	540.23	616.05	(+)75.82
Investments from Cash Balances (a to d)	628.18	840.89	(+)212.71
a. GoI Treasury Bills	*623.75*	*838.46*	*(+)214.71*
b. GoI Securities	-	-	-
c. Other Securities (Long term Investment)	*4.43*	*2.43*	*(-)2.00*
d. Other Investments	-	-	-
Funds-wise Break-up of Investment from Earmarked balances (a to b)	-	13.66	(+)13.66
a. Sinking Fund	-	*12.66*	*(+)12.66*
b. Guarantee Redemption Fund	-	*1.00*	*(+)1.00*
Interest Realized	27.04	39.41	(+)12.37

The State Government has invested Rs.840.89 crore in GoI Treasury Bills and Long term Investment and earned Rs.39.41 crore during 2008-09. Further, the Government invested Rs.13.66 crore in Reserve Funds during 2008-09. The interest receipts against investment on cash balance was 4.69 *per cent* while the Government paid interest of Rs.314 crore at an average rate of interest of 6.69 *per cent.*

1.7 Assets and Liabilities

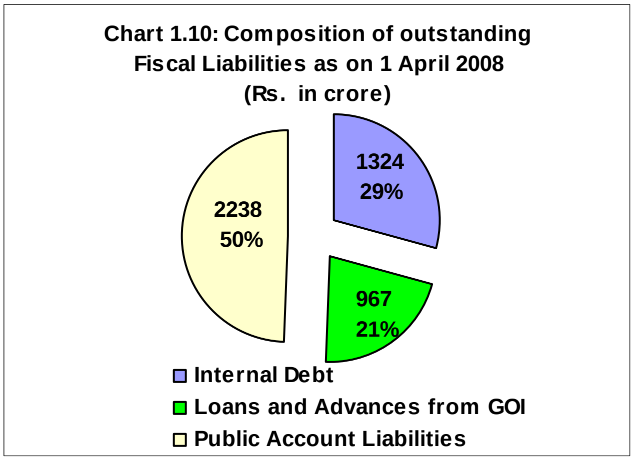
1.7.1 Growth and composition of Assets and Liabilities

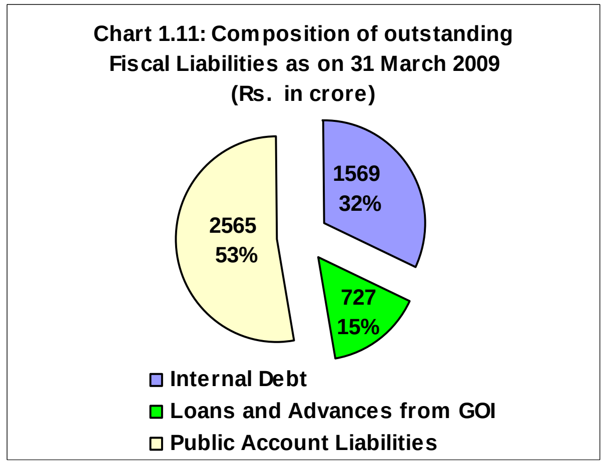
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 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 of the State has defined the total liabilities as *"Total liabilities means the sum of the liabilities under the Consolidated Fund of the State, and the Public Account of the State"*.

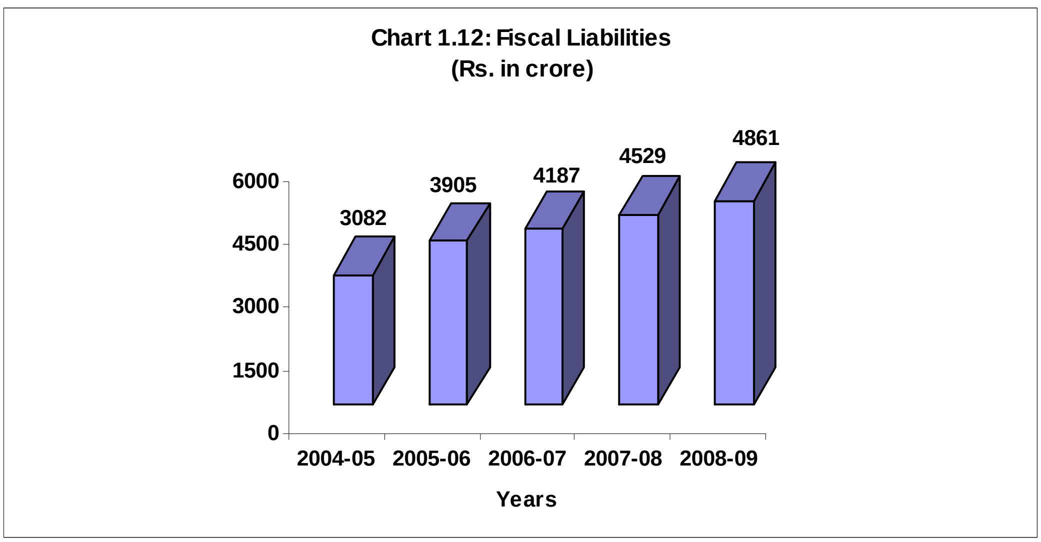
1.7.2 Fiscal Liabilities

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 1.10** and **1.11.**





The overall fiscal liabilities of the State Government increased by Rs.332 crore from Rs.4,529 crore in 2007-08 to Rs.4,861 crore in 2008-09. The increasing position of fiscal liabilities during 2004-09 is depicted in the bar chart below:



The increase in fiscal liabilities was mainly due to increase in Public Account liabilities (Rs.327.14 crore) and Internal Debt (Rs.245.20 crore) offset by decrease in Loans and Advances from GoI (Rs.239.96 crore). The fiscal liabilities during the current year exceeded by Rs.70 crore than the assessed figure of Rs.4,930.67 crore in the MTFPS.

The State Government had set up (February 2008) a Consolidated Sinking Fund for amortization of market borrowings, other loans and debt obligations, as per the recommendation of the TFC, and transferred an amount of Rs.12.66 crore during the current year.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per FRBM Act and the Manipur Ceiling on State Government Guarantee Act, 2004, the total outstanding guarantees as of 1 April of any year shall not exceed thrice the State's Own Tax Revenue Receipts of the second preceding year.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in the table below:

Table-1.15: Guarantees given by the Government of Manipur

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09
Maximum amount guaranteed	194	207	197
Outstanding amount of guarantees	251	211	274
Percentage of maximum amount guaranteed to total revenue receipts	6.78	5.90	5.09

The outstanding guarantee of Rs.274 crore was kept within the limit of the FRBM Act *ibid*. No additional guarantee has been given by the State Government in respect of loans raised by Statutory Corporations, Local bodies and other institutions during 2008-09. Hence, no guarantee fees was received during 2008-09. The principal beneficiaries of outstanding loans were Planning and Development Authority (Rs.137.38 crore), Khadi and Village Industries (Rs.54.68 crore), Manipur State Apex Long Term Co-operatives Housing Society Limited (Rs.45.75 crore) and Manipur Tribal Development Corporation limited (Rs.24.97 crore). The State Government had set up (February 2008) a guarantee redemption fund to meet the contingent liabilities arising from such guarantees, as per the recommendation of the TFC and transferred an amount of Rupees one crore during the current year.

1.7.4 Off - Budget Borrowings

The State Government stated (January 2010) that there was no off-budget borrowings during 2008-09.

1.8 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability[8] of the State. This section

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

assesses the sustainability of debt of the State Government in terms of debt stabilization[9]; sufficiency of non-debt receipts[10]; net availability of borrowed funds[11]; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. The table below analyzes the debt sustainability of the State according to these indicators during 2004-09.

Table 1.16: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Deficit)	(-) 69	92	(-) 250	397	303
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 162	177	(-) 204	(+) 577	(-) 318
Net Availability of Borrowed Funds	516	586	(-) 7	42	32
Burden of Interest Payments (IP/RR Ratio)	15.26	9.88	10.09	8.49	8.11
Maturity profile of State debt (in years)					
0 - 1	--	--	--	--	56.45
1 - 3	--	--	--	--	86.60
3 - 5	--	--	--	--	164.48
5 – 7	--	--	--	--	280.16
7 – 9	--	--	--	--	476.94
9 -11	--	--	--	--	466.08
11 - 20	--	--	--	--	718.66
Miscellaneous*	--	--	--	--	45.82
Total	**--**	**--**	**--**	**--**	**2,295.19**

* Year of maturity not known.

It is revealed from the above table that primary deficit together with quantum spread reversed from negative figure in 2006-07 to positive figure during 2007-09, indicating declining debt-GSDP ratio. However, sufficiency of non-debt receipts to cover incremental expenditure reversed from positive figure to negative figure, which is a matter of concern. This means that the Government would have no option but to go for debt receipts to meet its operational

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

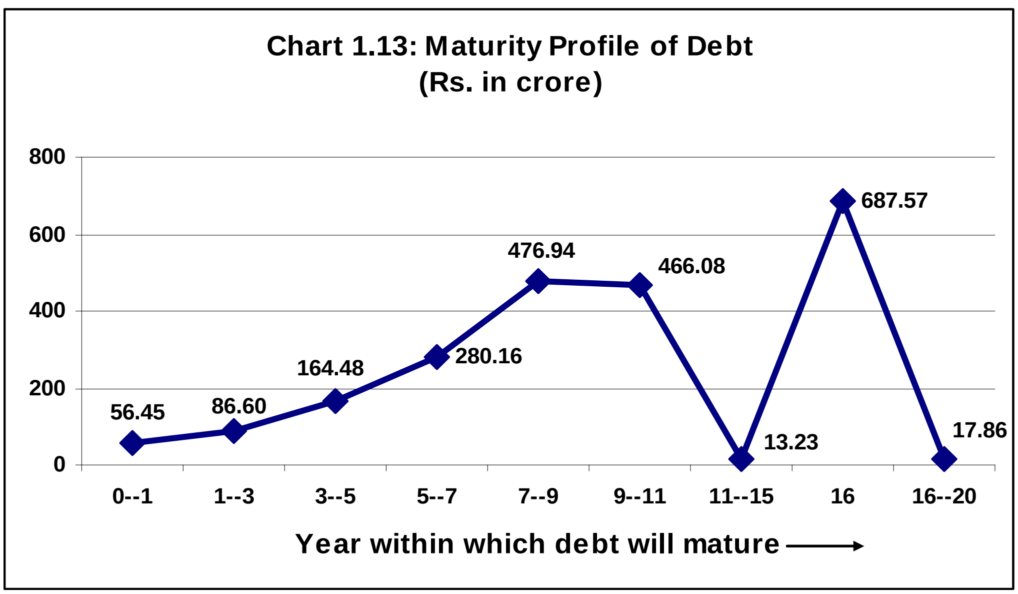
[10] Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental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

[11] 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.

expenditure. During the current year, the Government borrowed Rs.1,152.21 crore and repaid debt amounting to Rs.806.65 crore along with an interest of Rs. 313.83 crore, leaving a net borrowed funds of Rs. 31.73 crore only for its operations/activities. This means that a major chunk of borrowed funds (97 *per cent*) was utilised to service its past debt and interest and only 3 *per cent* of borrowed funds could be put to its activities.

Maturity profile of the existing debt of the State during the current year reveals that Rs.1530.71 crore (67 per cent) out of Rs.2,295.19 crore would mature in the next eleven years. The profile also reveals that in the next five subsequent two-year-gap period (upto 9th year) the debt repayment burden will mount in an increasing trend and would put pressure on the finances and debt management of the State. The debt repayment position between 9th and 11th year will continue to be high and thereafter dip to just Rs.13.23 crore between 11th and 15th year. However, in 2024-25 the State has a peak debt repayment burden of Rs.687.75 crore. *Future borrowings will have to be made keeping this repayment schedule in view so that there is no undue pressure on the State's exchequer in any particular year.*

The debt repayment position of Rs.45.82 crore is still unascertained. Efforts are needed to trace out the maturity period of this amount in order to have a clear and transparent debt profile of the Government. The maturity profile of the State's debt is depicted in the line-graph below:

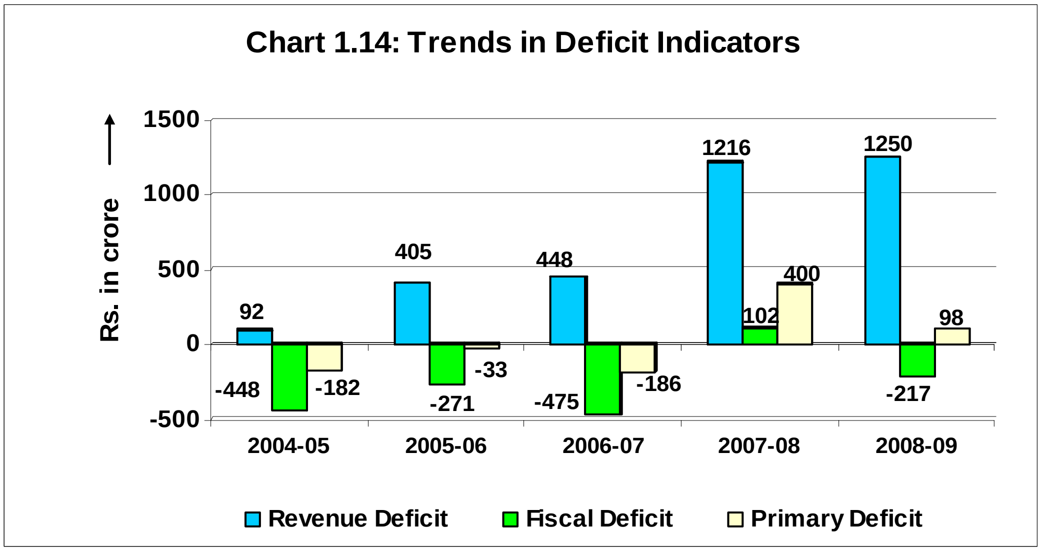


1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in Deficits

The chart below presents the trends in deficit indicators over the period 2003-08:



The Revenue surplus increased continually from Rs.92 crore in 2004-05 to Rs.1,250 crore in 2008-09. There was, however, fiscal deficit during the last five years, except in 2007-08 in which there was fiscal surplus. Fiscal deficit was mainly due to increase in capital expenditure which had increased from Rs. 521 crore in 2004-05 to Rs.1,467 crore in 2008-09. During the last two years, there was primary surplus, indicating that the continuance of fiscal deficit is partly due payment of interest of past liabilities. However, given the resource gap of the State Government, there is a need to exercise caution in incurring expenditure as to avoid debt trap in future.

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 below:

Table1.17: Components of Fiscal Deficit and its Financing Pattern

(Rs. in crore)

	Particulars	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit		**(-)475**	**(+)102**	**(-)217**
1	Revenue Surplus	448	1216	1250
2	Net Capital Expenditure	867	1108	1467
3	Net Loans and Advances	56	6	0.42
Financing Pattern of Fiscal Deficit*				
1	Market Borrowings	224.25	192.73	248.79
2	Loans from GoI	(-)238.97	(-)236.71	(-)239.96
3	Special Securities Issued to NSSF	229.53	199.92	199.46
4	Loans from Financial Institutions	(-)4.47	(-)2.74	(-)4.08
5	Small Savings, PF *etc.*	62.97	52.41	52.32
6	Deposits and Advances	16.01	132.78	83.72
7	Suspense and Misc.	(-)79.58	27.64	(-)4.78
8	Remittances	197.58	111.13	(-)48.16
9	Reserve Fund	(-)7.19	3.88	5.40
Increase/decrease in cash balance with RBI		(-)535.73	(-) 156.40	36.36

Figures in brackets indicate the *per cent* to GSDP. *All these figures are net of disbursements/outflows during the year

The fiscal surplus achieved during 2007-08 turned into fiscal deficit of Rs.217 crore during 2008-09 mainly due to increase in capital expenditure during the current year. Occurrence of fiscal deficit despite having Revenue Surplus and reduction in expenditure in Loans and Advances would mean that borrowed funds mainly from Market borrowings, National Small Saving funds, Provident funds and from Deposits and Advances were being channelized in incurring expenditure under Capital Account. However, during these years (2006-09) the State Government continually relied more on market borrowing and less on Loans from GoI to service its fiscal deficit.

1.9.3 Quality of Deficit/Surplus

The ratio of RD to FD 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 State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy. The bifurcation of primary deficit is shown in the table below:

Table 1.18: Primary deficit/surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue surplus	Primary deficit (-) /surplus (+)
1	**2**	**3**	**4**	**5**	**6 (3+4+5)**	**7 (2-3)**	**8 (2-6)**
2004-05	1,744	1,385	521	20	1,926	359	(-)182
2005-06	2,410	1,766	616	61	2,443	644	(-)33
2006-07	2,864	2,126	867	57	3,050	738	(-)186
2007-08	3,510	1,994	1,108	8	3,110	1,516	(+)400
2008-09	3,874	2,308	1,467	1	3,776	1,566	(+)98

The non-debt receipts of the State during 2004-09 were sufficient to meet the primary revenue expenditure. The non-debt receipts of the State increased by 122 *per cent* from Rs.1,744 crore to Rs.3,874 crore in 2004-09. The primary expenditure, however, increased by 96 *per cent* from Rs.1,926 crore to Rs.3,776 crore in 2004-09. During this period (2004-09), Capital expenditure grew by 182 *per cent* from Rs.521 crore in 2004-05 to Rs.1,467 crore in 2008-09. Capital expenditure as a percentage of Primary Expenditure also increased from 27 *per cent* in 2004-05 to 39 *per cent* in 2008-09.

1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. The table below presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table-1.19: Change in Revenue Receipts and Correction of Deficit

(Per cent of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	53.58	61.50	57.33	61.05
a. State's Own Tax Revenue	2.28	2.58	2.52	2.68
b. State's Own Non- tax Revenue	3.39	2.89	3.33	4.00
c. State's Share in Central Taxes and Duties	8.16	9.64	9.36	9.16
d. Grants-in-Aid	39.75	46.39	42.12	45.21
Revenue Expenditure	45.20	40.18	39.27	41.33
Revenue Surplus	8.38	21.32	18.06	19.70
Fiscal Deficit (-)/Surplus (+)	(-)8.89	1.79	(-)2.16	(-)3.40

The percentage of Revenue Receipts relative to GSDP increased from 53.58 *per cent* in 2006-07 to 61.05 *per cent* in 2008-09, although as compared to last year there was negligible change in the ratio. The percentage of Revenue Expenditure relative to GSDP decreased from 45.20 *per cent* in 2006-07 to 41.33 *per cent* in 2008-09. As a result of higher growth rate of Revenue Receipts as compared to Revenue Expenditure *vis-à-vis* GSDP, the Revenue Surplus as percentage of GSDP increased from 8.38 *per cent* in 2006-07 to 19.70 *per cent* in 2008-09.

Fiscal deficit, on the other hand, had a fluctuating trend from deficit in 2006-07 to surplus in 2007-08 and then back to fiscal deficit in 2008-09.

1.10 Conclusion and recommendations

Revenue Receipts

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit *etc*. indicated that the State had maintained revenue surplus during the last five years, as set out in the Manipur FRBM Act, 2005. There was primary surplus during the last two years (2007-09) though as compared to last year the primary surplus during the current year was much lower. However, except for the previous year there were fiscal deficit during the last five years. Fiscal deficit could not be contained within three *per cent* of GSDP as targeted in FRBM Act or within the limits set out in the FCP and MTFPS (Table 1.2). As in the previous four years, the Revenue Receipts profile of the State remained the same with about 90 *per cent* of its Revenue Receipts being contributed from the Central Tax transfer and Grants-in-aid, indicating that the State is solely dependent on receipts from the Government of India. The Own Tax Revenue of Rs.170 crore remained far below than the normative assessment of Rs.213 crore made by the Twelfth Finance Commission (TFC) (Para 1.3).

The State has to make an effort to increase the Own Tax Revenue and should also focus in areas other than Sales tax (VAT) and plug revenue leakages to improve revenue collection so that dependence on Central Government and recourse to borrowed funds can be reduced.

Expenditure status

The State had higher fiscal capacity, and higher Development Expenditure and Capital Expenditure relative to Aggregate Expenditure when compared with the all India Average during the current year (Para 1.5.1). The Development Capital expenditure constituted a significant 34.52 *per cent* of Aggregate Expenditure during 2008-09, indicating that the State's expenditure was orienting more on asset creation (Para 1.5.2). However, as in the previous year Non-Plan Revenue Expenditure (NPRE) remained unbridled within the assessed limits of TFC/FCP/MTFPS and posses a risk to the sound financial health of the State (Para 1.4.1).

Salaries expenditure alone accounted for more than 28 *per cent* of Revenue Receipts of the State during the year. Its percentage of Revenue Expenditure, net of interest payments and pension stood at 53.66 *per cent*, much higher than TFC norm and FRBM Act target of 35 *per cent* and was nearly three times the State's own Revenue resources (Tax and Non-Tax Revenue) (Para 1.4.2).

Greater expenditure under capital head will not necessarily materialize into actual asset creation unless projects/schemes are completed on time. Otherwise

Government will be merely locking up valuable resources without any gain to the beneficiaries.

There is an urgent need to confine NPRE within the assessed limits of TFC/FCP/MTFPS. The social obligation of the Government to its employees to revise and enhance their pay should be made with due caution so that it remains within the norms indicated by TFC and FRBM targets.

Fiscal deficit

During 2008-09, there was an increase of revenue surplus by Rs.34 crore and yet fiscal surplus of previous year turned into fiscal deficit in the current year. The primary surplus was also reduced by Rs.302 crore. The fiscal deficit could not be limited within the assessment made in the FCP and MTFPS and also exceeded 3 *per cent* of the GSDP as targeted in the FRBM Act and TFC norm (Table 1.2).

Given the upswing in expenditure under capital account, the Government needs to seek out measures so that expenditure under revenue account do not increase proportionately and thereby push up the Aggregate Expenditure. If fiscal deficit were to be controlled in near future, there is an urgent need to increase the State's own revenue resources (Tax and Non-tax revenue) and move up from the stagnating contribution of about 10 *per cent* to the total Revenue Receipt made during the last five years.

Fiscal liabilities

Fiscal liabilities of the State has been increasing steadily during the last five years and increased by Rs.332 crore over the previous year. The increase in fiscal liabilities over the previous years was mainly due to increase in Public Account liabilities (Rs.327.81 crore) and Internal Debt (Rs.245.20 crore) offset by decrease in Loans and Advances from GoI (Rs.239.96 crore). The fiscal liabilities during the current year exceeded by Rs.70 crore than the assessed figure of Rs.4,930.67 crore in the MTFPS (Para 1.7.2). Maturity profile of the State debt reveals that the debt repayment burden will mount in an increasing trend in the next 10 years and put pressure on the finances and debt management of the State (Para 1.8).

Although there are indications that debt was being stabilized during the current year due to declining debt-GSDP ratio, there was gap in State's resource as non-debt receipts could not keep the pace of increment of primary expenditure and therefore the State's borrowed funds still remained un-liquidated (Para 1.8).

The Government should ensure that there is value for money for every rupee incurred as expenditure. As the possibility of debt trap due to increasing fiscal liabilities, mounting maturity of State debt in coming years and uncontrolled Non-Plan Revenue Expenditure cannot be overlooked, there should be unrelenting efforts to increase State's own revenue resources and cut unproductive expenditure. Any amount realized from arrears of revenue, any returns from the Government Companies and Co-operative institutions could make an impact in sustaining debt. The Government should seriously focus in monitoring and evaluation of the capital projects/schemes that remained incomplete for years so that precious revenue resources are not sunk into projects which cannot be completed within an acceptable time frame.