

# CHAPTER I

## FINANCES OF THE STATE GOVERNMENT

### In Summary

Large Revenue and Fiscal deficits year after year indicate continued macro imbalances in the State. In Assam Revenue deficit had increased from Rs.320 crore in 2002-03 to Rs.685 crore in 2003-04 (current year).

Revenue of the State consists mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs.4841 crore in 1999-2000 to Rs.7765 crore in 2003-04 at an average trend rate of 11.45 *per cent*. There were, however, significant inter year variations in the growth rates. During the current year the revenue receipts grew by 14.31 *per cent*. On average 39 *per cent* of the revenue came from State's own resources. While Central tax transfers had increased by 19.18 *per cent*, the grants-in-aid from Government of India increased by 10.04 *per cent* over the last year.

Total expenditure of the State increased from Rs.6461 crore in 1999-2000 to Rs.9200 crore in 2003-04 at an average trend rate of 11.39 *per cent*. The rate of growth of expenditure in 2003-04 was 18.71 *per cent*, which was higher than the average trend rate (11.39 *per cent*) for five years.

The interest payment during 2003-04 was Rs.1446 crore and the same grew by 16.14 *per cent* over the last year. The average growth rate of interest payment during the period 1999-2004 was 14.68 *per cent*. Debt burden (fiscal liabilities) of the State at the end of 2003-04 was Rs.15285 crore, up by 11.41 *per cent* over the previous year. The average rate of interest paid on the borrowing of the State during 1999-2004 (10.18 *per cent*) was more than the average rate of growth of Gross State Domestic Product (GSDP) (8.24 *per cent*) violating the cardinal rule of debt sustainability. The finances of the State continued to be dependent on the ways and means advance/overdraft from Reserve Bank of India for its day-to-day expenditure.

Though it is not uncommon for a State to borrow for widening its infrastructure and for creating income-generating assets an ever-increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit could lead the State finances into a debt trap.

## **1.1 Introduction**

The Finance Accounts of the Government of Assam are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in the **Box 1.1**.

### **Box 1.1**

#### **Lay out of Finance Accounts**

*Statement No.1 presents the summary of transaction of the State Government-receipts and expenditure, revenue and capital, public debt receipts and disbursements etc., in the Consolidated Fund, Contingency Fund and Public Account of the State.*

*Statement No.2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.*

*Statement No.3 gives financial results of Major Irrigation etc., works for the current year.*

*Statement No.4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.*

*Statement No.5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.*

*Statement No.6 gives the summary of guarantees given by the Government for repayment of loans etc., raised by the statutory corporations, local bodies and other institutions.*

*Statement No.7 gives the summary of cash balances and investments made out of such balances.*

*Statement No.8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2004.*

*Statement No.9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/total expenditure.*

*Statement No.10 indicates the distribution between the charged and voted expenditure incurred during the year.*

*Statement No.11 indicates the detailed account of revenue receipts by minor heads.*

*Statement No.12 provides detailed account of revenue expenditure by minor heads under non-plan, State plan and centrally sponsored schemes separately and capital expenditure major head wise.*

*Statement No.13 depicts the detailed statement of capital expenditure incurred during and to the end of the current year and statement of commitment list of incomplete capital works as Annexure to statement No.13.*

*Statement No. 14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies etc., up to the end of the current year.*

Statement No.15 depicts the capital and other expenditure to the end of the current year and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed statement of receipts, disbursements and balances under heads of accounts relating to Debt, Deposit, Contingency Fund and Public Account.

Statement No.17 presents the detailed statement of debt and other interest bearing obligations of the Government.

Statement No.18 provides the detailed statement of loans and advances made by the Government of Assam, the amount of loans repaid during the year, the balances at the end of the year and amount of interest received during the year.

Statement No.19 gives the details of earmarked balances.

## 1.2 Trend of Finances with reference to Previous year

Finances of the State Government during the current year compared to previous year were as under:

(Rupees in crore)			
2002-03	Sl. No.	Major Aggregates	2003-04
<b>6793</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4)</b>	<b>7765</b>
1935	2.	Tax Revenue	2070
693	3.	Non-Tax Revenue	946
4165	4.	Other Receipts	4749
<b>28</b>	<b>5.</b>	<b>Non-Debt Capital Receipts</b>	<b>40</b>
28	6.	Of which Recovery of Loans	40
<b>6821</b>	<b>7.</b>	<b>Total Receipts (1+5)</b>	<b>7805</b>
<b>5928</b>	<b>8.</b>	<b>Non-Plan Expenditure (9+11+12)</b>	<b>7103</b>
5781	9.	On Revenue Account	7021
1245	10.	Of which, Interest Payments	1446
51	11.	On Capital Account	55
96	12.	On Loans disbursed	27
<b>1822</b>	<b>13.</b>	<b>Plan Expenditure (14+15+16)</b>	<b>2097</b>
1332	14.	On Revenue Account	1429
455	15.	On Capital Account	567
35	16.	On Loans disbursed	101
<b>7750</b>	<b>17.</b>	<b>Total Expenditure (8+13)</b>	<b>9200</b>
<b>929</b>	<b>18.</b>	<b>Fiscal Deficit (17-1-5)</b>	<b>1395</b>
<b>320</b>	<b>19.</b>	<b>Revenue Deficit (9+14-1)</b>	<b>685</b>
<b>(-) 316</b>	<b>20.</b>	<b>Primary Deficit (-)/Surplus(+) (18-10)</b>	<b>(-) 51</b>

## 1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the State Government of Assam for the year 2003-04 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public accounts receipts and disbursements made

during the year as emerging from Statement-I of Finances Accounts and other detailed statements.

**Table 1: Summary of Receipts and Disbursements for the year 2003-04**

(Rupees in crore)							
2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
<b>Section-A: Revenue</b>							
					<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
<b>6793.34</b>	<b>I. Revenue receipts</b>	<b>7765.10</b>	<b>7112.50</b>	<b>I. Revenue expenditure</b>	<b>7020.56</b>	<b>1429.23</b>	<b>8449.79</b>
1934.52	Tax revenue	2070.32	3112.20	General services	3512.28	16.84	3529.12
692.97	Non-tax revenue	945.80	2898.01	Social Services	2467.61	893.88	3361.49
1814.36	Share of Union Taxes/Duties	2162.07	1094.75	Economic Services	1028.32	518.51	1546.83
2351.49	Grants from Government of India	2586.91	7.54	Grants-in-aid/Contributions	12.35	-	12.35
<b>Section-B: Capital</b>							
-	<b>II. Miscellaneous Capital Receipts</b>	-	<b>505.53</b>	<b>II. Capital Outlay</b>	<b>54.73</b>	<b>567.27</b>	<b>622.00</b>
<b>27.99</b>	<b>III. Recoveries of Loans and Advances</b>	<b>40.29</b>	<b>131.01</b>	<b>III. Loans and Advances disbursed</b>	<b>26.95</b>	<b>100.64</b>	<b>127.59</b>
<b>3033.66</b>	<b>IV. Public debt receipts<sup>1</sup></b>	<b>2303.51</b>	<b>1187.21</b>	<b>IV Repayment of Public Debt<sup>2</sup></b>	<b>1396.57</b>		<b>1396.57</b>
<b>35.00</b>	<b>V. Contingency Fund</b>	-	<b>35.00</b>	<b>V. Contingency Fund</b>			-
<b>2290.37</b>	<b>VI. Public account receipts</b>	<b>3957.12</b>	<b>2428.42</b>	<b>VI. Public account disbursement</b>	<b>3160.28</b>		<b>3160.28</b>
<b>208.92</b>	<b>VII. Closing overdraft from Reserve Bank of India</b>	<b>69.61</b>	<b>1026.62</b>	<b>VII. Opening overdraft from Reserve Bank of India</b>			<b>208.92</b>
<b>(-) 77.70</b>	<b>Opening Balance</b>	<b>(-) 114.71</b>	<b>(-) 114.71</b>	<b>Closing Balance</b>			<b>55.77</b>
<b>12311.58</b>	<b>Total</b>	<b>14020.92</b>	<b>12311.58</b>	<b>Total</b>			<b>14020.92</b>

#### **1.4 Audit Methodology**

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2003-04 and wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (1) Resources by volumes and sources, (2) Application of resources (3) Assets and Liabilities, and (4) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in the **Box 1.2**

<sup>1</sup> Includes net ways and means advances and overdraft also

<sup>2</sup> Bifurcation of Plan and Non-Plan not available

**Box 1.2**  
**Reporting Parameters**

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The New GSDP series as base as published by the Directorate of Economics and Statistics Department of the State Government have been used.

For tax revenues, non-tax revenues, revenue expenditure etc., buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

For most series a trend growth during 1999-2004 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in *Appendix-I*.

The accounts of the State Government are kept in three parts (1) Consolidated Fund, (2) Contingency Fund and (3) Public Account as defined in **Box 1.3**.

**Box 1.3 – State Government Funds and the Public Account**

Consolidated Fund	Contingency Fund	Public Account
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.	Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.	Besides, the normal receipt and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc., are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.

**1.5 State finances by key indicators**

**1.5.1 Resources by volumes and sources:** Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz., market loans, borrowings from financial

institutions/commercial banks etc., and loans and advances from Government of India as well as accruals from Public accounts.

Table 2 shows that the total receipts of the State Government for the year 2003-04 were Rs.14066 crore. Of these, the revenue receipts of the State Government were Rs.7765 crore only, constituting 55 per cent of the total receipts. The balance of receipts came from borrowings and public account receipts.

**Table 2- Resources of Assam**

(Rupees in crore)

<b>I. Revenue Receipts</b>		<b>7765</b>
<b>II. Capital Receipts</b>		<b>2344</b>
(a) Miscellaneous Receipts	-	
(b) Recovery of Loans and Advances	40	
(c) Public Debt Receipts	2304	
<b>III. Contingency Fund Receipts</b>		<b>-</b>
<b>IV. Public Account Receipts</b>		<b>3957</b>
(a) Small savings. Provident Fund, etc.	746	
(b) Reserve Fund	135	
(c) Deposits and Advances	926	
(d) Suspense and Miscellaneous	1138	
(e) Remittances	1012	
<b>Total Receipts</b>		<b>14066</b>

**1.5.2 Revenue Receipts:** Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts of the State consist mainly of its own tax and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the Gross State's Domestic Product (GSDP) and its buoyancy is indicated in Table 3.

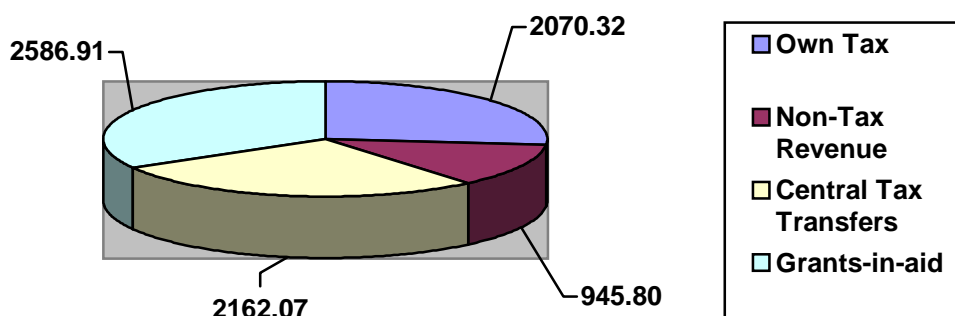
**Table 3: Revenue Receipts- Basic parameters (Values in Rupees crore and others in per cent)**

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average/ Trend
Revenue Receipts	4841	5638	5965	6793	7765	6200
Own Taxes	25.30	25.01	26.10	28.49	26.66	26.31
Non-Tax Revenue	9.19	9.35	8.94	10.20	12.18	9.97
Central Tax Transfers	29.93	29.85	28.60	26.70	27.84	28.59
Grants-in-aid	35.58	35.79	36.36	34.61	33.32	35.13
Rate of Growth	7.41	16.46	5.80	13.88	14.31	11.45
Revenue Receipt/GSDP	16.54	17.91	18.15	19.17	19.88	18.44
Revenue Buoyancy	0.485	2.177	1.308	1.783	1.399	1.389
GSDP Growth	15.29	7.56	4.44	7.78	10.23	8.24

The revenue receipts of the State increased from Rs.4841 crore in 1999-2000 to Rs.7765 crore in 2003-04 at an average trend rate of 11.45 per cent. There were, however, significant inter-year variations in the growth rates. During the five-year period 1999-2004, the State had a buoyant economy with its GSDP growth averaging 8.24 per cent. Revenue growth exceeded GSDP growth rates during 2000-04 and buoyancy of revenue receipt during this period was greater than one. There was

however, slight decline in revenue buoyancy to 1.399 due to a moderate growth in revenue receipt during 2003-04.

While 39 per cent of the revenue receipts during 2003-04 have come from State's own resources comprising of taxes and non-taxes, central tax transfers and grants-in-aid together contributed 61 per cent of the total revenue. Sales Tax was the major contributor (75 per cent) of State own tax revenue followed by State Excise and Taxes on Vehicles (6 per cent each), Stamps and Registration fees and Land Revenue (3 per cent each). Of non-tax revenue sources petroleum (76 per cent), receipts from Coal and Lignite (5 per cent) were principal contributors.



The source of total receipts under different heads and GSDP during 1999-2004 is indicated in Table 4.

**Table 4- Sources of Receipts: Trends**

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
1999-2000	4841	14	1605	1963	8423	29263
2000-01	5638	18	1530	2345	9531	31476
2001-02	5965	29	1946	2276	10216	32872
2002-03	6793	28	3034	2290	12145 <sup>3</sup>	35431
2003-04	7765	40	2304	3957	14066	39054

## 1.6 Application of resources

**1.6.1 Trend of growth:** 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.6,461 crore in 1999-2000 to Rs.9,200 crore in 2003-04 at an average trend rate of 11.39 per cent per annum. The

<sup>3</sup> Slightly differ from item No.9 of Exhibit VI due to exclusion of receipts into Contingency Fund.

rate of growth of total expenditure was however, lower than the rate of growth of revenue receipts during this period.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table-5 below:

**Table 5: Total Expenditure-Basic Parameters (value in Rs. crore and others in per cent)**

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average/Trend
Total Expenditure*	6461	7195	7441	7750	9200	7609
Rate of Growth	33.05	11.36	3.42	4.15	18.71	11.39
TE/GSDP Ratio	22.08	22.86	22.64	21.87	23.56	22.63
Revenue Receipts/TE Ratio	74.93	78.36	80.16	87.65	84.40	81.10
<b>Buoyancy of Total Expenditure with (per cent)</b>						
GSDP	2.161	1.502	0.771	0.533	1.830	1.382
Revenue Receipts	4.460	0.690	0.589	0.299	1.308	0.995

\* Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans and Advances.

Consistent increase of total expenditure over a five-year period 1999-2004 was also reflected in gradual increase in percentage of total expenditure to GSDP (22.08 to 23.56 per cent) and also revenue receipts to total expenditure (from 74.93 to 84.40 per cent). The increase in total expenditure in 2003-04 was due to increase in interest payment by Rs.201 crore and revenue expenditure under Economic Sector by Rs.452 crore which were nearly 14 per cent and 31 per cent of net increase of total expenditure over previous year.

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services, Interest payments, Social and Economic Services, Grants-in-aid and other contributions to institutions and Loans and Advances. Relative share of these components in total expenditure is indicated in Table 6.

**Table 6: Components of Expenditure-Relative share (in per cent)**

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average/Trend
General Services	23.24	23.22	25.18	24.24	22.84	23.75
Interest Payment	15.02	12.30	14.27	16.07	15.72	14.68
Social Services	37.61	39.61	36.77	37.68	36.96	37.72
Economic Services	21.98	21.74	22.63	20.22	22.96	21.91
Loans and Advances	2.05	3.01	1.10	1.69	1.39	1.85
Grants-in-aid	0.10	0.12	0.05	0.10	0.13	0.50

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. But expenditure on General Services and Interest payments, which were considered as non-developmental, together accounted for 38.56 per cent in 2003-04 as against 38.26 per cent in 1999-2000. On the other hand, development expenditure i.e., on Social and Economic Services together accounted for only 59.92 per cent in 2003-04 as against 59.59 per cent in 1999-2000. This indicated less priority for developmental expenditure.



**1.6.2 Incidence of Revenue expenditure:** In the total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table 7.

**Table 7: Revenue Expenditure-Basic Parameters**

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average/Trend
Revenue Expenditure (Rupees in crore)	5846	6417	6846	7113	8450	6934
Rate of Growth ( <i>per cent</i> )	32.38	9.77	6.69	3.90	18.80	11.78
RE/GSDP	19.98	20.39	20.83	20.08	21.64	20.63
RE as percentage of TE	90.48	89.19	92.00	91.78	91.85	91.13
RE as percentage of RR	120.76	113.82	114.77	104.71	108.82	111.84
<b>Buoyancy of Revenue Expenditure with (<i>per cent</i>)</b>						
GSDP	2.117	1.292	1.507	0.501	1.838	1.429
Revenue Receipts	4.370	0.593	1.153	0.281	1.314	1.029

Overall revenue expenditure of the State increased at an average trend rate of 11.78 *per cent*. Rate of growth of revenue expenditure reached a level of 32.38 *per cent* in 1999-2000 but had decelerated since then. The revenue expenditure-GSDP ratio reached a level of 21.64 *per cent* due to sharp increase in the rate of growth of revenue expenditure in 2003-04 over previous year. On an average 91.13 *per cent* of the total expenditure was on current consumption.

**High salary expenditure:** Salaries including Grants in aid towards salaries accounted for 57 *per cent* of the revenue receipts and 53 *per cent* of the revenue expenditure of the State during 2003-04. The expenditure on salaries increased from Rs.3452 crore in 1999-2000 to Rs.4462 crore in 2003-04. Ratio of salary expenditure to GSDP however, declined from 11.80 *per cent* in 1999-2000 to 11.43 *per cent* in 2003-04 due to moderate increase in total internal resource base as indicated in the Table 8:

**Table 8**

Heads	(Rupees in crore)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Salary expenditure	3452	3688	3814	3883	4462
As a percentage of GSDP	11.80	11.72	11.60	10.96	11.43
As a percentage of Revenue Receipts	71.31	65.41	63.94	57.16	57.46
As percentage of Revenue expenditure	59.05	57.47	55.71	54.59	52.80

**Huge expenditure on pension payments:** Pension payments have increased by 75.29 *per cent* from Rs.518 crore in 1999-2000 to Rs.908 crore in 2003-04. The sharp increase in expenditure in 2003-04 on pensions by 17 *per cent* over the previous year's was stated (February 2005) to be due to liberalisation of pension formula, family pension and increasing number of pensioners. Year-wise break-up of expenditure incurred on pension payment during the years 1999-2000 to 2003-04 was as under:

**Table 9**

Year	Expenditure (Rupees in crore)	Percentage to total revenue expenditure
1999-2000	518	8.86
2000-01	672	10.47
2001-02	728	10.63
2002-03	775	10.90
2003-04	908	10.75

Source: Appropriation Accounts of the State Government.

With the increase in number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising pension liabilities of the retired State Government employees.

**Interest payments:** The Eleventh Finance Commission (July 2000) has recommended that as a medium term objective, States should endeavour to keep interest payment, as a ratio to revenue receipts at 18 *per cent*. It was, however, observed that the interest payment were more than 18 *per cent* of revenue receipts as shown below:

**Table 10**

Year	Interest payments (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
1999-2000	971	20.06	16.61
2000-01	885	15.70	13.79
2001-02	1062	17.80	15.51
2002-03	1245	18.33	17.50
2003-04	1446	18.62	17.11

Interest payments increased steadily by 49 *per cent* from Rs.971 crore in 1999-2000 to Rs.1446 crore in 2003-04 primarily due to ever increasing borrowings. The interest payment was on Internal Debt (Rs.829 crore), loans received from Central Government (Rs.470 crore) and Small Savings, PF, etc., (Rs.147 crore).

### 1.7 Expenditure by Allocative priorities

The expenditure of the State in the nature of plan expenditure, capital expenditure and development expenditure reflects its quality. Higher the ratio of these components to total expenditure better is the quality of expenditure. Table 11 gives these ratios during 1999-2004 as follows:

**Table 11: Quality of Expenditure (*per cent* to total expenditure)**

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average/Trend
Plan expenditure	26.69	25.65	26.10	23.45	22.00	24.58
Capital Expenditure	7.62	8.04	6.97	6.64	6.86	7.18
Development Expenditure	60.84	63.27	60.06	58.89	60.76	60.72

(Total expenditure does not include Loans and Advances)

All the three components of quality of expenditure indicated inter year variations. In the year 2003-04, the Plan as well as Capital expenditure decreased considerably when compared to 1999-2000 but the decline in developmental expenditure (expenditure on Economic and Social Services) compared to 1999-2000 is disturbing.

Out of the developmental expenditure of Rs.5512 crore, during the year, social services accounted for 62 *per cent* (Rs.3400 crore). Expenditure on Education, Sports, Arts and Culture, Health and Family Welfare, Water supply Sanitation, Housing and Urban Development constituted 87 *per cent* of the expenditure on social sector.

**Table 12: Social Sector Expenditure**

	(Rupees in crore)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Education, Sports, Arts and Culture	1675	1944	1872	1998	2364
Health, and Family Welfare	310	356	360	330	370
Water Supply, sanitation Housing and Urban Development	208	221	198	211	232
<b>Total</b>	<b>2193</b>	<b>2521</b>	<b>2430</b>	<b>2539</b>	<b>2966</b>
<b>As a percentage of expenditure on Social Sector</b>	<b>90.28</b>	<b>88.49</b>	<b>88.82</b>	<b>86.95</b>	<b>87.24</b>

Similarly, the expenditure on Economic Services (Rs.2112 crore) accounted for 38 *per cent* of the development expenditure. Of this, Irrigation and flood control, Energy and Transport accounted for 43 *per cent*.

**Table 13: Economic Sector Expenditure**

	(Rupees in crore)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Irrigation and flood control	291	297	267	241	259
Energy	3	-	57	69	224
Transport	375	430	392	409	433
<b>Total</b>	<b>669</b>	<b>727</b>	<b>716</b>	<b>719</b>	<b>916</b>
<b>As a percentage of expenditure on Economic Sector</b>	<b>46.88</b>	<b>46.19</b>	<b>42.52</b>	<b>45.88</b>	<b>43.37</b>

### 1.7.1 Financial Assistance to Local Bodies and other Institutions

**Extent of assistance:** The quantum of assistance (Rs.2793.89 crore) provided by way of grants (Rs.2487.11 crore) and loans (Rs.306.78 crore) to different local bodies etc., during the period of five years ending 2003-04 was as under:

**Table-14**

(Rupees in crore)

	1999-2000		2000-01		2001-02		2002-03		2003-04	
	Loans	Grants	Loans	Grants	Loans	Grants	Loans	Grants	Loans	Grants
Zilla Parishads and other Panchayati Raj institutions	--	--	--	--	--	14.82	--	25.53	--	14.82
Municipal Corporations/Urban Sewerage Board	10.43	2.00	1.70	14.89	5.08	2.29	0.85	12.74	0.22	19.41
Co-operative Societies and Co-operative Institutions	--	--	--	--	8.09	--	9.54	0.95	0.99	2.83
Universities and Educational Institutions	--	120.60	--	253.54	--	199.24	--	761.40	--	841.75
Assam State Electricity Board (ASEB)	--	--	89.80	--	--	--	21.84	--	86.28	--
Assam State Housing Board (ASHB)	--	--	0.38	0.41	--	0.59	--	0.61	--	0.86
Assam Khadi and Village Industries Board	--	--	--	--	--	4.10	--	1.30	--	2.46
Guwahati Metropolitan Development Authority	--	--	--	--	0.10	--	0.50	--	7.39	1.47
Other Institutions	--	5.13	5.49	13.04	34.85	17.93	9.05	8.44	11.84	19.51
Autonomous Councils	--	44.92	0.02	31.63	0.34	12.78	--	23.45	--	11.66
<b>Total</b>	<b>10.43</b>	<b>172.65</b>	<b>99.39</b>	<b>313.52</b>	<b>48.46</b>	<b>251.75</b>	<b>41.78</b>	<b>834.42</b>	<b>106.72</b>	<b>914.77</b>
<b>Total assistance (Loans + Grants)</b>	<b>183.08</b>		<b>412.91</b>		<b>300.21</b>		<b>876.20</b>		<b>1021.49</b>	
Percentage of increase (+)/ decrease (-) over previous year	608.24		125.54		(-) 27.29		191.86		16.58	
Assistance as a percentage of revenue expenditure	3.13		6.43		4.39		12.32		12.09	

Source: Detailed Appropriation Accounts

The total assistance at the end of 2003-04 had grown by 458 *per cent* over the level of 1999-2000 and by 17 *per cent* over the level of previous year mainly as a result of increased assistance to Universities and Educational Institutions. The assistance to local bodies and others as a percentage of total revenue expenditure had also increased from 3 in 1999-2000 to 12 in 2003-04.

**1.7.2 Misappropriation, losses etc.:** Out of 214 cases of misappropriation amounting to Rs.363.28 lakh reported by the State Government to end of March 2004, two cases amounting to Rs.0.11 lakh were disposed off with 212 cases amounting to Rs.363.17 lakh outstanding at the end of June 2004. The year-wise details are given in **Appendix-II**.

## **1.8 Assets and liabilities**

In the Government accounting system, comprehensive accounting of the fixed assets like land and buildings etc., owned by 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 by the Government. **Appendix-III** gives an abstract of such liabilities and the assets as on 31 March 2004, compared with the corresponding position on 31 March 2003. While the liabilities in this statement

consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. **Appendix-III** shows that while the liabilities grew by 10 *per cent*, the assets increased only by 7 *per cent* widening the gap between assets and liabilities and increasing the proportion of liabilities, which did not have an asset, back up. This shows a continuous deterioration of the financial condition of the State. The liabilities of Government of Assam depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired state employees, guarantees/letters of comforts issued by the State Government. **Appendix-IV** gives an abstract of Receipts and Disbursements of the Government as on 31 March 2004, compared with the corresponding position on 31 March 2003. The Sources and Application of funds are also shown in **Appendix-V**. Time series data on State Government Finances for the period 1999-2004 are detailed in **Appendix-VI**.

**1.8.1 Incomplete projects:** According to the information furnished by the Department, there were 10 incomplete Major and Medium projects as of March 2004 involving Rs.491 crore. Details are given in **Appendix-VII**.

**1.8.2 Investments and returns:** As on 31 March 2004, Government had invested Rs.587.89 crore in its statutory Corporations, Government companies, Joint Stock Companies and Co-operative Societies. Government's return on this investment was less than one *per cent* in three out of five years. With an average interest rate of 10.18 *per cent* being paid by Government on its borrowings, the average annual subsidy amounted to 9.65 *per cent* and the implicit subsidy during the period 1999-2004 was Rs.250 crore.

**Table 15: Return on Investment**

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Investment (Rs. in crore)	460.38	475.98	514.35	570.35	587.89	521.79
Returns (Rs. in crore)	0.44	0.73	0.83	5.93	6.88	2.96
Percentage of returns	0.10	0.15	0.16	1.04	1.17	0.52
Average interest rate paid by Government	12.06	9.34	9.70	9.82	9.97	10.18
Difference between interest rates and return	11.96	9.19	9.54	8.78	8.80	9.65
Implicit subsidy (Rs. in crore)	55	44	49	50	52	50

**1.8.3 Loans and advances by State Government:** In addition to investments in Co-operatives, Corporations and Companies, Government has also been providing support in terms of loans and advances to many of these parastatals. Total outstanding balance as on 31 March 2004 was Rs.3022 crore. Interest received on such loans had varied from 0.03 *per cent* to 0.13 *per cent* during 1999-2004. Total implicit subsidy during 1999-2003, on such loans was Rs.1369 crore.

**Table 16: Average Interest Received on Loans Advanced by the Government**

	(Rupees in crore)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening Balance	2461	2579	2778	2832	2935
Amount Advanced during the year	133	217	82	131	128
Amount repaid during the year	15	18	28	28	41
Closing Balance	2579	2778	2832	2935	3022
Net Addition	118	199	54	103	87
Interest Received	1	3	1	1	4
Interest Received as <i>per cent</i> to Loans advanced	0.03	0.11	0.03	0.03	0.13
Average interest paid by the State ( <i>per cent</i> )	12.06	9.34	9.70	9.82	9.97
Difference between interest paid and received ( <i>per cent</i> )	12.03	9.23	9.67	9.79	9.84
Implicit subsidy	296	238	269	277	289

**1.8.4 Management 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 mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Reserve Bank of India has been put in place. State has further deteriorated in management of cash balances as WMA facilities were used for 53 days during 2003-04 as against 39 days in previous years. As regards overdraft, the State Government has used this facility for 237 days only in 2003-04 as against 315 days in previous year signifying improvement in cash management.

**Table 17: Ways and means and overdrafts of the State and Interest paid thereon**

	(Rupees in crore)					
	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
<b>Ways and Means Advances</b>						
Taken in the year	892.00	1054.60	608.66	955.84	2092.32	1120.68
Outstanding	127.96	175.72	176.71	226.39	227.96	186.95
Interest Paid	8.77	6.78	121.53	11.60	14.26	32.59
Number of Days	38	36	30	39	53	39
<b>Overdraft</b>						
Taken in the year	3651.65	4187.61	5749.87	4533.27	4343.54	4493.19
Outstanding	425.58	500.87	1026.62	208.92	69.61	446.32
Interest Paid	11.55	18.10	17.70	32.68	23.10	20.63
Number of Days	113	293	312	315	237	254

**1.8.5 Undischarged liabilities**

**Fiscal liabilities – public debt and guarantees:** Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. However, no such law has been passed by the State, to lay down any such limit. Table 18 below gives the fiscal liabilities of the State, its rate of growth, and ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

**Table 18: Fiscal Liabilities – Basic Parameters**  
(Value in Rs. Crore and ratios in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average/Trend
Fiscal Liabilities <sup>\$</sup>	8697	10262	11633	13720	15285	11919
Rate of Growth	17.40	17.99	13.36	17.94	11.41	15.73
<b>Ratio of Fiscal Liabilities to</b>						
GSDP	29.70	32.60	35.40	38.70	39.10	35.50
Revenue Receipt	179.70	182.00	195.00	202.00	196.80	190.70
Own Resources	520.80	529.80	556.60	522.10	506.80	526.70
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP	1.138	2.379	3.012	2.305	1.116	1.909
Revenue Receipt	2.348	1.093	2.303	1.292	0.797	1.375
Own Resources	1.063	1.126	1.691	0.697	0.773	1.489

<sup>\$</sup> Includes Internal Debt, Loans and Advances from GOI, Small Savings, Provident Funds, etc., Reserve Funds (Gross) and Deposits

Over all fiscal liabilities of the State increased from Rs.8,697 crore in 1999-2000 to Rs.15,285 crore in 2003-04 on an average rate of 15.73 *per cent* during 1999-2004. The ratio of these liabilities to GSDP also increased from 29.70 *per cent* in 1999-2000 to 39.10 *percent* in 2003-04. These liabilities stood at 1.97 times of its revenue receipts and 5.07 times of its own resources.

In addition to these liabilities, Government has guaranteed loans raised by various Corporations and others, which at the end of 2003-04 stood at Rs.1833 crore. The guarantees are in the nature of contingent liabilities and the fiscal liabilities together with the contingent liabilities currently exceed two times the Revenue receipts of the State. The State Government however, laid down the procedure for issue of guarantees and fixed a ceiling of Rs.1,500 crore on guarantees to be given with effect from April 2000.

The fiscal liabilities had grown faster than the State's GSDP, revenue receipts and own resources. Average buoyancy of these liabilities with respect to GSDP was 1.909 indicating that for each one *per cent* increase GSDP fiscal liabilities were growing at the rate of 1.91 *per cent*.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. However, in the case of Assam, increasing interest rates compared to GSDP growth has resulted in negative interest spread in three out of five years (Table 19). This negative spread of interest may endanger debt sustainability.

**Table-19: Debt Sustainability-Interest Rate and GSDP Growth (in *per cent*)**

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average/Trend
Weighted Interest Rate	12.06	9.34	9.70	9.82	9.97	10.18
GSDP Growth	15.29	7.56	4.44	7.78	10.23	8.24
Interest spread	3.23	(-)1.78	(-)5.26	(-)2.04	0.26	(-)1.94

Another important indicator of the debt sustainability is the net availability of the borrowed funds after payment of principal and interest. Table 20 below gives the

position of receipt and re-payment of internal debt and other fiscal liabilities of the State over the last five years. The net funds available from the total receipts on account of public debt, loans and advances from Government of India and other debt receipts (including public account) declined from 10.71 *per cent* in 1999-2000 to (-) 0.20 *per cent* in 2003-04. This is due to increased interest payment and repayment of loans from borrowed funds.

**Table-20: Net Availability of Borrowed Funds (Rs. in crore)**

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
<b>Internal debt</b>						
Receipt	5015	5803	7045	6415	7286	6313
Repayment (Principal + Interest)	4368	5483	6355	6937	7599	6148
Net Fund Available	647	320	690	(-)522	(-) 313	164
Net Fund Available ( <i>per cent</i> )	12.90	5.51	9.79	(-)8.14	(-) 4.30	2.60
<b>Loans and Advances from GOI</b>						
Receipt	1090	922	1259	2058	1452	1356
Repayment (Principal + Interest)	1185	840	1538	1603	1670	1367
Net Fund Available	(-) 95	82	(-) 279	455	(-) 218	(-) 11
Net Fund Available ( <i>per cent</i> )	(-) 8.72	8.89	(-) 22.16	22.11	(-) 15.01	(-) 0.81
<b>Other obligations</b>						
Receipt	839	1042	1158	1133	1458	1126
Repayment (Principal + Interest)	647	689	794	1113	947	838
<b>Total liabilities</b>						
Receipt	6944	7767	9462	9606	10196	8795
Payments	6200	7012	8687	9653	10216	8354
Net receipts	744	755	775	(-) 47	(-) 20	441
Net Funds Available ( <i>per cent</i> )	10.71	9.72	8.19	(-) 0.49	(-) 0.20	5.01

## 1.9 Management of deficits

**1.9.1 Fiscal imbalances:** The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the 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 so raised are applied are important pointers to its fiscal health. The revenue deficit of the State, which in turn indicates the excess of its revenue expenditure over revenue receipts, increased from Rs.320 crore in 2002-03 to Rs.685 crore in 2003-04 (Table 21).

The State had persistent revenue deficit. The ratio of revenue deficit to fiscal deficit had increased from 34.45 *per cent* in 2002-03 to 49.10 *per cent* in 2003-04 indicating that nearly 50 *per cent* of the borrowed funds were used for current consumption. Persistently high ratio of revenue deficit to fiscal deficit also indicated that the asset base of the State was continuously shrinking and increasingly a large part of borrowings (fiscal liabilities) were not having an asset backup. As proportion to the State's GSDP, the revenue deficit had reached 1.75 *per cent* and fiscal deficit 3.57 *per cent* in 2003-04.



**Table-21: Fiscal Imbalances – Basic Parameters (Values in Rs. crore and ratios in per cent)**

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average/Trend
Revenue Deficit	-1005	-779	-881	-320	-685	-734
Fiscal Deficit	-1606	-1539	-1447	-929	-1395	-1383
Primary Deficit	-635	-654	-385	316	51	-261
RD/GSDP	-3.43	-2.47	-2.68	-0.90	-1.75	-2.18
FD/GSDP	-5.49	-4.89	-4.40	-2.62	-3.57	-4.11
PD/GSDP	-2.17	-2.08	-1.17	0.89	0.13	-0.78
RD/FD	62.58	50.62	60.88	34.45	49.10	53.07

(Negative figures indicate deficit)

**1.10 Fiscal ratios**

The finances of a State should be sustainable, flexible and non-vulnerable. Table 22 below presents a summarised position of Government finances over 1999-2004, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications highlight areas of concern and capture its important facets.

**Table-22: Indicators of Fiscal Health (in per cent)**

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average/Trend
<b>I. Resource Mobilisation</b>						
Revenue Receipt/GSDP	16.54	17.91	18.15	19.17	19.88	18.44
Revenue Buoyancy	0.485	2.177	1.308	1.783	1.399	1.389
Own tax/GSDP	4.19	4.48	4.74	5.46	5.30	4.83
<b>II. Expenditure Management</b>						
Total Expenditure/GSDP	22.08	22.86	22.64	21.87	23.56	22.63
Revenue Receipt/Total Expenditure	74.93	78.36	80.16	87.65	84.40	81.10
Revenue Expenditure/Total Expenditure	90.48	89.19	92.00	91.78	91.85	91.13
Plan Expenditure/Total Expenditure	26.69	25.65	26.10	23.45	22.00	24.58
Capital Expenditure/Total Expenditure	7.62	8.04	6.97	6.64	6.86	7.18
Development Expenditure/Total Expenditure	60.84	63.27	60.06	58.89	60.76	60.72
Buoyancy of TE with RR	4.460	0.690	0.589	0.299	1.308	0.995
Buoyancy of RE with RR	4.370	0.593	1.153	0.281	1.314	1.029
<b>III. Management of Fiscal Imbalances</b>						
Revenue deficit (Rs. in crore)	1005	779	881	320	685	734
Fiscal deficit (Rs. in crore)	1606	1539	1447	929	1395	1383
Primary Deficit (Rs. in crore)	635	654	385	(-) 316	(-) 51	261
Revenue Deficit/Fiscal Deficit	62.58	50.62	60.88	34.45	49.10	53.07
<b>IV. Management of Fiscal Liabilities (FL)</b>						
Fiscal Liabilities/GSDP	29.72	32.60	35.39	38.72	39.14	35.50
Fiscal Liabilities/RR	179.65	182.01	195.02	201.97	196.84	190.70
Buoyancy of FL with RR	2.348	1.093	2.303	1.292	0.797	1.375
Buoyancy of FL with OR	1.063	1.126	1.691	0.697	0.773	1.489
Interest spread	3.23	(-) 1.78	(-) 5.26	(-) 2.04	0.26	(-) 1.94
Net Funds Available	10.71	9.72	8.19	(-) 0.49	(-) 0.20	5.01
<b>V. Other Fiscal Health Indicators</b>						
Return on Investment	0.10	0.15	0.16	1.04	1.17	0.52
BCR (Rs. in crore)	(-) 1336	(-) 1254	(-) 1238	(-) 1095	(-) 1557	(-) 1296
Financial Assets/Liabilities	0.93	0.87	0.82	0.81	0.78	0.84

The ratio of revenue receipt to GSDP had shown continuous improvement in the five-year period. The ratio of own taxes to GSDP also was on a rising trend from 1999-2000 to 2002-03, but the revenue buoyancy moderately declined in 2003-04. Various ratios concerning expenditure indicate quality of expenditure and sustainability in relation to resources. The total expenditure to GSDP is buoyant. Revenue expenditure is on the increasing trend over the five-year period 1999-2004 and comprises 92 *per cent* of total expenditure in 2003-04 leaving very little for capital formation or asset creation. The development expenditure to total expenditure was also not on a healthy trend and its ratio has risen slightly in 2003-04 over previous year. All these indicate State's increasing dependence on borrowings for meeting its revenue expenditure and inadequate expansion of its developmental activities. Increasing revenue and fiscal deficit over last year indicates growing fiscal imbalances of the State. Similarly increase in the ratio of revenue deficit to fiscal deficit indicates that the application of borrowed funds was largely to meet current consumption. The decreasing primary deficit indicates increasing interest payment and lesser availability of borrowed funds for developmental purposes.

Increasing ratio of fiscal liabilities to GSDP and revenue receipts together with a growing revenue deficit on account of increased interest payment indicate that the State is gradually getting into a debt trap. Similarly, the moderate buoyancy of the debt both with regard to its revenue receipts and own resources indicate its unsustainability. The average interest paid by the State on its borrowings during 2000-2004 has also exceeded the rate of growth of its GSDP, violating the cardinal rule of debt sustainability. There has also been a decline in net availability of funds from its borrowings due to a larger portion of these funds being used for debt servicing. The State's insignificant return on investment indicates huge implicit subsidy and utilisation of high cost borrowing for investments that yield little. The ratio of State's total financial assets to liabilities has also deteriorated indicating that increasingly a greater part of liabilities are without an asset back up. The balance from current revenue of the State has also continued to be negative indicating continued dependence on borrowings for plan or developmental expenditure.

### **1.11**                      ***Impact of Government policies***

***Appendix--VIII*** depicts the progress achieved during 2002-03 as compared to 2001-02 in various sectors. It would be seen that percentage of literacy has remained stagnant at 64.28 per cent during 2001-2003. No new institutions were opened in Health sector. In Power sector, generation has decreased during 2002-03 necessitating purchase of power to fulfill the demand of consumers. Agriculture production as well as creation of Irrigation potential had decreased significantly during 2002-03 as compared to 2001-02.