

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The Finance Accounts of the Government of Bihar are laid out in 19 statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts 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 transactions 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 2002-03.

Statement No.3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

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 corporation, 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 2003.

Statement No.9 shows the revenue and expenditure under different heads for the year 2002-2003 as a percentage of total revenue/expenditure.

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

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

Statement No.12 provides accounts 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 capital expenditure incurred during and to the end of 2002-2003.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc. up to the end of 2002-03.

Statement No.15 depicts the capital and other expenditure to the end of 2002-03 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts/disbursements and balances under heads of account relating to debt, contingency fund and public account.

Statement No.17 present detailed account of debt and other interest bearing obligations of the Government of Bihar.

Statement No.18 provides the detailed account of loans and advances given by the Government of Bihar, the amount of loan repaid during the year, the balance as on 31 March 2003 and the amount of interest received during the year.

Statement No.19 gives the details of earmarked balances of reserved funds.

1.2 Trend of finances with reference to previous year

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

(Rupees in crore)

2001-02	Sl. No.	Major Aggregates	2002-03
9839	1.	Revenue Receipts (2+3+4)	10968
2319	2.	Tax Revenue	2761
287	3.	Non-Tax Revenue	261
7233	4.	Other Receipts	7946
13	5.	Non-Debt Capital Receipts	16
13	6.	Of which Recovery of Loans	16
9852	7.	Total Receipts (1+5)	10984
10292	8.	Non-Plan Expenditure (9+11+12)	10901
10292	9.	On Revenue Account	10901
2629	10.	Of which, Interest Payments	3022
-	11.	On Capital Account	negligible
-	12.	Loans and advances disbursed	-
2143	13.	Plan Expenditure (14+15+16)	3071
867	14.	On Revenue Account	1354
742	15.	On Capital Account	970
534	16.	Loans and advances disbursed	747
12435	17.	Total Expenditure (8+13)	13972
2583	18.	Fiscal Deficit (17-7)	2988
1320	19.	Revenue Deficit (9+14-1)	1287
(-) 46	20	Primary Deficit(+)/Surplus(-) (18-10)	(-) 34

1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the State Government of Bihar for the year 2002-03 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 **Appendix-1** of Finance Accounts and other detailed statements.

Table –1 SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2002-2003

(Rupees in crore)

2001-02	Receipts	2002-03	2001-02	Disbursements	2002-03		
Section-A: Revenue							
					Non-Plan	Plan	Total
9839.29	I. Revenue receipts	10968.42	11159.35	I. Revenue expenditure	10900.70	1354.43	12255.13
2318.95	Tax revenue	2761.05	6322.88	General services	6556.42	17.72	6574.14
286.70	Non-tax revenue	260.82	3532.23	Social Services	3372.56	543.15	3915.71
6176.62	Share of Union Taxes/Duties	6549.23	1302.42	Economic Services	969.90	793.56	1763.46
1057.02	Grants from Govt. of India	1397.32	1.82	Grants-in-aid / Contributions	1.82	-	1.82
Section-B: Capital							
-	II Misc. Capital Receipts	-	742.48	II Capital Outlay	Negligible	969.74	969.74
12.95	III. Recoveries of Loans and Advances	15.58	533.71	III Loans and Advances disbursed	-	747.19	747.19
3757.67	IV Public debt receipts*	4189.80	624.02	IV Repayment of Public Debt	1526.35#		1526.35#
3093.43	V Public account receipts	5584.15	3513.74	V Public account – disbursements	4822.34#		4822.34#
(-) 474.38	Opening Balance	- 344.35	(-) 344.35	Closing Balance	92.85#		92.85
16228.96	Total	20413.60	16228.96	Total	17342.12	3071.36	20413.60

* Includes net ways and means advances and over drafts

Bifurcation of plan and non- plan not available

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 statement of the Finance Accounts for the year 2002-03 and wherever necessary, show these in the light of time series data (**Appendix I to IV**) and periodic comparisons.

The key indicators adopted for analysing the State finances are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) 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 erstwhile State of Bihar has been bifurcated into successor States of Bihar and Jharkhand with effect from 15 November 2000, as per Reorganisation Act. Hence the indicators of the financial performances of Government take into account the Finance Accounts figures of the combined

State of Bihar and Jharkhand upto 14-11-2000 and from 15.11.2000 with reference to successor State of Bihar. The reporting parameters are depicted in the Box 1.2.

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 indicated in the Budget at a glance by the Finance 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 1998-2003 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in *Appendix V*.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) 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 receipts 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 disbursement are made from it.

Indicators of financial performance of the successor State of Bihar after 14th November 2000 are subject to variation after completion of allocation of assets and liabilities between successor States of Bihar and Jharkhand.

1.5 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consists 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 of 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 2002-03 were Rs 20757.95 crore, of which, the revenue receipts of the State Government were only Rs 10968.42 crore, constituting 52.84 per cent of the total receipts. The balance of receipts came from borrowings and public account receipts.

Table 2 – Resources of Bihar

		<i>(Rupees in crore)</i>
I Revenue Receipts		10968.42
II Capital Receipts		4205.38
a	Miscellaneous Receipts	-
b	Recovery of Loans and Advances	15.58
c	Public Debt Receipts	4189.80
III Public Account Receipts		5584.15
a	Small Savings, Provident Fund, etc.	963.20
b	Reserve Fund	144.13
c	Deposits and Advances	3026.90
d	Suspense and Miscellaneous	333.26
e	Remittances	1116.66
Total Receipts		20757.95

1.5.1 Revenue receipts

Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. Revenue receipts of the State increased from Rs 9296 crore in 1998-1999 (erstwhile composite state) to Rs 10968 crore in 2002-2003 (successor state). The rate of growth of revenue receipts during 2002-03 over the previous year was the modest 11 per cent, primarily due to 19 per cent growth in the tax revenue and 32 per cent growth in the grants in aid from Government of India.

Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy is indicated in Table 3.

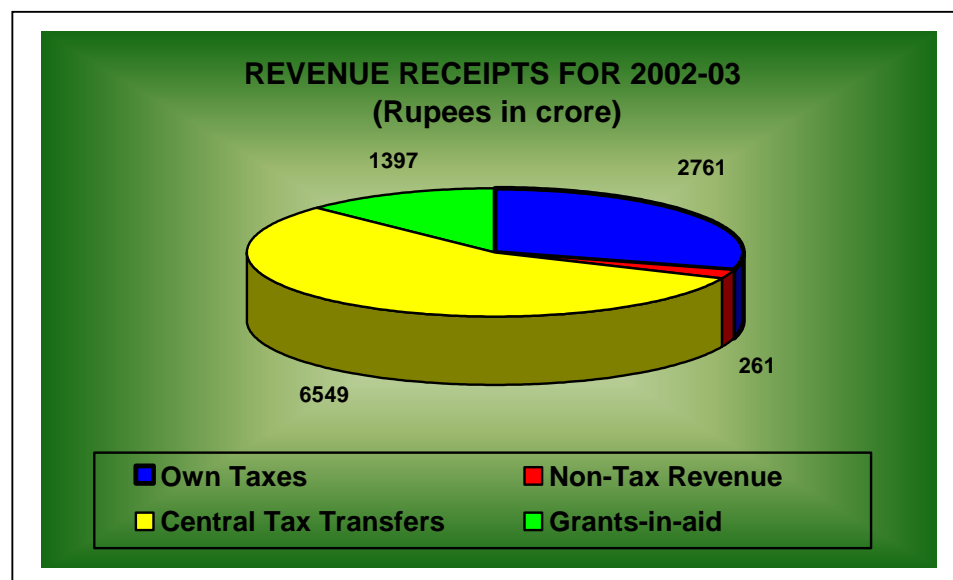
Table 3: Revenue Receipts – Basic Parameters
(Values in Rupees in crore and others in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Revenue Receipts	9296	10659	11177	9839	10968
Own taxes	28.85	28.94	25.13	23.57	25.17
Non-Tax Revenue	12.33	10.94	6.37	2.91	2.38
Central Tax Transfers	47.77	46.55	58.84	62.78	59.71
Grants-in-aid	11.05	13.57	9.66	10.74	12.74
Rate of Growth	(-) 1.93	14.66	4.86	(-)11.97	11.47
Revenue Receipts/GSDP	14.03	14.79	22.63	19.30	19.35
Revenue Buoyancy	- 0.218	1.666	0.154	-3.686	1.026
GSDP Growth	8.84	8.80	(-) 31.49	3.25	11.18

* Average trend rate of growth.

Among the tax revenue, 17 per cent increase in sales tax, 71 per cent increase in taxes on goods and passengers, 26 per cent growth in taxes on vehicles and 14 per cent increase in stamps and registration fees were the principal contributors for the high growth in the revenue during the year. Three fifty one per cent jump in interest receipts and 56 per cent growth in receipts from Non-ferrous mining and metallurgical industries were however insufficient to prevent the decline (Rs 26 crore) of the non-tax revenue during the year.

Sales tax was the major source of State's own tax revenue having contributed 51 per cent of the tax revenue followed by stamps and registration fees (11 per cent), taxes on goods and passengers (8 per cent), state excise (8 per cent) etc. Of non tax revenue sources, Non –ferrous mining and metallurgical industries (23 per cent) and interest receipts (20 per cent) were principal contributors.



Non tax revenue of the state declined from Rs 287 crore in 2001-02 to Rs 261 crore in 2002-03 primarily due to non revision of user charges. *The current levels of cost recovery in supply of merit goods and services by Government are 0.11 per cent for secondary education, 0.73 per cent for university and higher education, 5.81 per cent for technical education, 3.45 per cent in health and family welfare, 0.2 per cent in water supply and sanitation, 10.04 per cent in major and medium irrigation and 0.33 per cent in minor irrigation.*

While on an average around one-third of the revenue receipts had come from the State's own resources, central tax transfers and grants-in-aid together continued to contribute nearly two-third of the total revenue.

As on 31 March 2003 arrears of revenue pending collection under nine of the principal heads of revenue as reported by the department were Rs 1485.14 crore.

The source of receipts under different heads and GSDP during 1998-2003 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 (GSDP)
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
1998-99	9296	10	3543	35744	48593	66253
1999-00	10659	12	3476	31087	45234	72083
2000-01	11177	11	3528	10462	25178	49383
2001-02	9839	13	3758	7719	21329	50987
2002-03	10968	16	4190	5584	20758	56688

1.6 Application of resources

1.6.1 Trend of growth

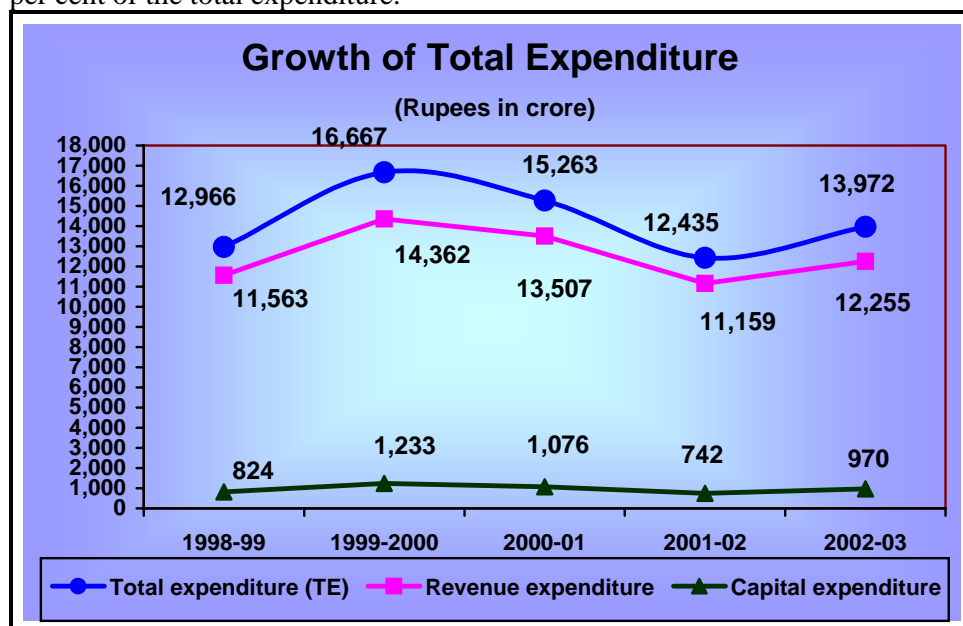
The total expenditure of the state has increased marginally from Rs 12966 crore in 1998-1999 for the erstwhile composite state to Rs 13972 crore in 2002-2003 for the new reorganized state.

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 is indicated in Table-5 below:

Table 5: Total Expenditure – Basic Parameters (Value: Rupees in crore and others in per cent)

	1998-99	1999-00	2000-01	2001-02	2002-03
Total expenditure	12966	16667	15263	12435	13972
Rate of growth	10.52	28.54	(-) 8.42	(-)18.53	12.36
TE/GSDP	19.57	23.12	30.91	24.39	24.65
Revenue receipts/TE	71.70	63.95	73.23	79.12	78.50
Buoyancy of total expenditure with					
GSDP	1.189	3.344	0.267	-5.704	1.105
Revenue receipts	(-)5.448	1.947	(-)1.733	1.548	1.077

The total expenditure of the State increased by 12.36 per cent during 2002-03 over the previous year. During 2002-03 revenue receipt accounted for 78.50 per cent of the total expenditure.



In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services and loans and advances. The relative share of these components in total expenditure is indicated in Table 6.

Table 6: Components of expenditure – Relative Share (in per cent)

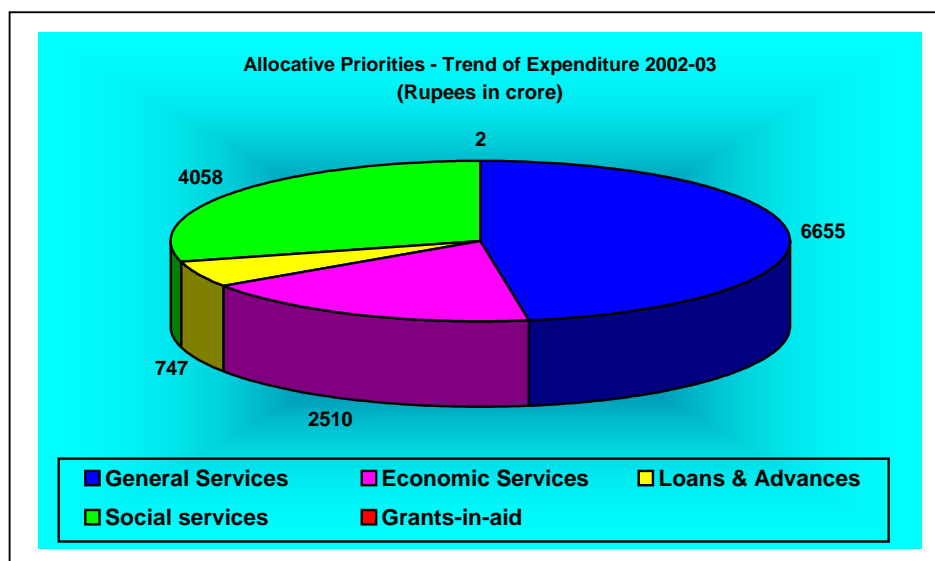
	1998-99	1999-00	2000-01	2001-02	2002-03	Average
General Services	41.02	39.10	45.81	51.00	47.63	44.91
Social Services	32.09	33.48	32.05	28.75	29.04	31.08
Economic Services	22.40	20.71	17.66	15.94	17.96	18.94
Grants-in-aid	0.02	0.28	0.02	0.02	0.02	0.07
Loans and advances	4.47	6.43	4.46	4.29	5.35	5.00

The movement of relative share of these components of expenditure indicated that while the share of economic services and social services in total expenditure declined from 22.40 per cent and 32.09 per cent in 1998-1999 to 17.96 per cent and 29.04 per cent in 2002-2003 respectively, the relative share of general services increased from 41.02 per cent to 47.63 per cent during the period.

1.6.2 Incidence of revenue expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure major head wise. Revenue expenditure had the predominant share in total expenditure. Revenue

expenditure is usually incurred to maintain the current level of assets and services and does not represent a significant addition to the State's service network.



Revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts and its buoyancy with both GSDP and revenue receipts is indicated in Table 7 below:

Table 7: Revenue Expenditure – Basic Parameters
(Value: Rupees in crore and others in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Revenue Expenditure	11563	14362	13507	11159	12255
Rate of Growth	9.81	24.21	(-) 5.95	(-) 17.38	9.82
RE/ GSDP	17.45	19.92	27.35	21.89	21.62
RE as <i>per cent</i> of total expenditure	89.18	86.17	88.50	89.74	87.71
RE as <i>per cent</i> to Revenue Receipts	124.39	134.74	120.85	113.42	111.73
Buoyancy of Revenue Expenditure with					
GSDP	1.109	2.751	0.189	(-) 5.352	0.878
Revenue Receipts	(-) 5.081	1.651	(-) 1.225	1.452	0.856

Revenue expenditure of the State increased from Rs 11563 crore in 1998-1999 to Rs 12255 crore in 2002-2003. Revenue expenditure accounted for 85.05 *per cent* of total funds available during 2002-2003. This was higher than the share of revenue receipts (76.12 *per cent* in total funds available) of the State Government, leading to revenue deficit.

Though the ratio of revenue expenditure to revenue receipts declined from 124.39 *per cent* in 1998-99 to 111.73 *per cent* in 2002-03, dependence of the State on borrowings for meeting its current expenditure continued primarily

due to the fact that administrative expenses (Rs 1155 crore), interest payments (Rs 3022 crore), and pensions (Rs 2049 crore) alone consumed 57 per cent of total revenue receipts of the State during the year.

◆ **Expenditure on pension payments**

Pension payments have increased by 100 per cent from Rs 1024 crore in 1998-99 to Rs 2049 crore in 2002-03. Year-wise break-up of expenditure incurred on pension payments during the years 1998-99 to 2002-2003 was as under:

Table 8: Pension Expenditure

(Rupees in crore)		
Year	Expenditure	Percentage to total revenue
1998-1999	1024	11.02
1999-2000	1241	11.64
2000-2001	2011	17.99
2001-2002	2273	23.10
2002-2003	2049	18.68

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. Decrease in expenditure on pension payment during 2002-03 was mainly due to reorganisation of the state and consequential reallocation of its employees to successor Jharkhand State in November 2000. The State Government had not constituted any fund to meet the fast rising pension liabilities of the retired State employees. Considering the rate at which pension liabilities are increasing in the last few years, reforms in the existing pension schemes assume critical importance.

◆ **Interest payments**

The Eleventh Finance Commission (August 2000) has recommended that as a medium term objective, States should endeavour to keep interest payment as a ratio to revenue receipts to 18 per cent. It was however observed that interest payments as percentage of revenue receipts ranged between 26 and 28 during the last five years.

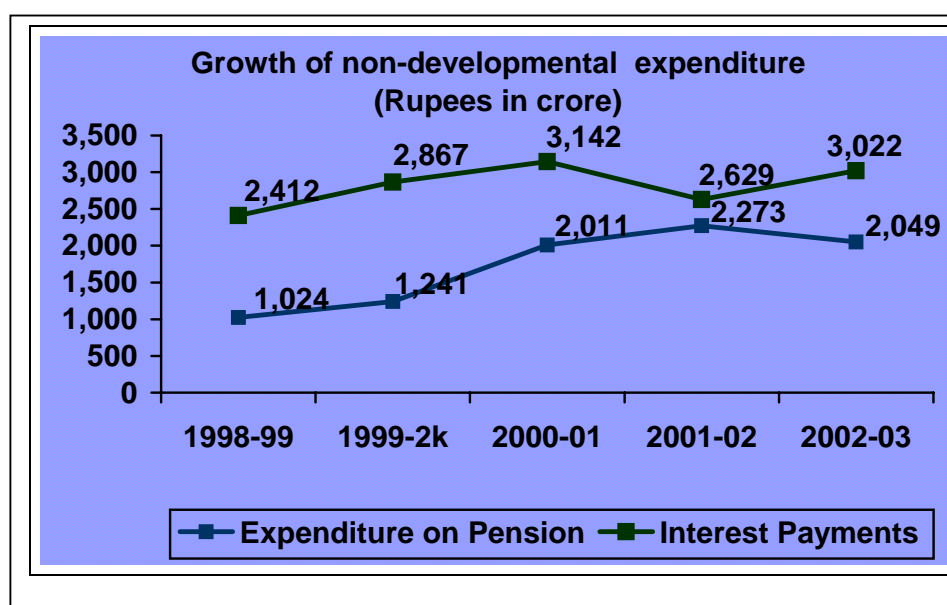
Table 9

Year	Interest Payment	Percentage of interest payment with reference to	
	(Rupees in crore)	Revenue Receipts	Revenue Expenditure
1998-1999	2412	25.95	20.86
1999-2000	2867	26.90	19.96
2000-2001	3142	28.11	23.26
2001-2002	2629	26.72	23.56
2002-2003	3022	27.55	24.66

In absolute terms, interest payments increased steadily by 25.29 per cent from Rs 2412 crore in 1998-99 to Rs 3022 crore in 2002-03 primarily due to continued reliance on borrowings for financing the fiscal deficit. The interest payment thus consumed hundred per cent of the state's own revenue, leaving

nothing for meeting the development requirements of the large population of the state.

The State Government raised market loans of Rs 1335.47 crore @ weighted average rate of 7.20 *per cent* during the year, whereas borrowed Rs 1575.21 crore from National Small Saving Fund at the rate of 10.50 *per cent per annum* and Rs 1255.15 crore at the rate of 11 *per cent per annum* from Government of India. Nearly 60 *per cent* of the outstanding market loans as of 31st March 2003 carried interest rate exceeding 11 *per cent*. Thus, the effective cost of borrowings on their past loans is much higher than the rate at which they are able to raise resources at present from the market. The maturity profile of the State Government market loans indicate that nearly 35 *per cent* of the total market loans are repayable within next five years while remaining loans are required to be repaid within 5 to 10 years. Thus, the rise in expenditure on interest payment is not likely to slow down in near future.



1.7 Expenditure by allocative priorities

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of Finance Accounts reflect the allocative priorities of the State. Higher the ratio of these components to total expenditure, better is deemed to be the quality of expenditure.

Table 10 below gives the percentage share of these components of expenditure in State's total expenditure*.

Table 10: Quality of expenditure (per cent to total expenditure*)

	1998-99	1999-00	2000-01	2001-02	2002-03
Plan Expenditure	20.63	17.79	13.13	13.52	17.57
Capital Expenditure	6.65	7.91	7.38	6.23	7.33
Developmental Expenditure	57.04	57.91	52.04	46.69	49.66

* Total expenditure exclude expenditure on loans and advances.

Plan expenditure declined from 20.63 *per cent* of total expenditure in 1998-1999 to 17.57 *per cent* in 2002-2003. Out of the developmental expenditure (Rs 6568 crore), Social services (Rs 4058 crore) accounted for 61.78 *per cent* during the year. General Education, Health and Family Welfare and Water supply and Sanitation consumed 89 *per cent* of the expenditure on social sector.

Table 11
Social sector expenditure (Rupees in crore)

Major Heads	1998-99	1999-00	2000-01	2001-02	2002-03
Education, Sports, Art and Culture	2596.39	3916.89	3288.06	2501.70	2750.20
Medical and Public Health	677.64	786.36	680.18	518.61	571.64
Water Supply and Sanitation, Housing and Urban Development	326.81	392.80	264.88	153.33	294.13
Total	3600.84	5096.05	4233.12	3173.64	3615.97

Similarly, the expenditure on economic services (Rs 2510 crore) accounted for 38.22 *per cent* of the developmental expenditure. Of this, Rural development (Rs 1126.55 crore), Irrigation and Flood Control (Rs 666.62 crore) and Transport (Rs 285.04 crore) accounted for 82.78 *per cent* of the expenditure on economic sector.

Table 12
Economic sector expenditure (Rupees in crore)

Major Heads	1998-99	1999-00	2000-01	2001-02	2002-03
Rural development	962.72	1343.65	992.92	814.74	1126.55
Irrigation and flood control	742.80	1052.54	827.63	624.25	666.62
Transport	453.96	426.15	331.87	127.75	285.05
Total	2159.48	2822.34	2152.42	1566.74	2078.22

In addition, the Government of Bihar has paid Rs 747.19 crore as loans and advances during the year. Of which, Rs 630.34 crore (84 *per cent*) was paid to the Bihar State Electricity Board (BSEB). It was observed that out of the loan sanctioned to BSEB, loan of Rs 340 crore was meant for revenue purposes viz. payment of interest on bonds, clearance of outstanding dues of NTPC etc. Hence accountal of payment of subsidy to the BSEB as investment/capital expenditure distorts the State accounts, leading to suppression of revenue deficit.

1.7.1 Financial assistance to local bodies and other institutions

Autonomous bodies and authorities perform non-commercial functions of public utility services. These bodies/authorities receive substantial financial assistance from Government. Government also provides substantial financial assistance to other institutions such as those registered under the respective State Co-operative Societies Act, Companies Act, 1956, etc. to implement various programmes of Government. The quantum of assistance provided to different bodies etc., during the period of five years ending 2002-2003 was as follows:

Table 13

(Rupees in crore)

Sl. No.	Bodies/authorities, etc.	1998-99	1999-00	2000-01	2001-02	2002-03
1.	Universities and Educational Institutions	417.34	518.65	463.00	369.13	461.13
2.	Municipal Corporations and Municipalities	27.21	115.44	57.18	28.99	99.98
3.	Zila Parishads and Panchayati Raj Institutions	5.89	6.93	2.90	106.60	292.34
4.	Development Agencies	226.86	34.76	61.32	12.87	34.81
5.	Other Institutions (including statutory bodies)	181.93	29.29	49.20	47.05	133.45
	Total	859.23	705.07	633.60	564.64	1021.71
	Percentage increase (+) / decrease (-) over previous year	9	(-) 17.94	(-) 10.14	10.88	80.94

1.7.2 Delay in furnishing utilisation certificates

The financial rules of Government require that where grants are given for specific purposes, certificates of utilization (UCs) are to be obtained by the departmental officers from the gurantees and after verification, these should be forwarded to Accountant General (AG) within 15 months from the date of sanction of the grant unless specified otherwise.

Of UCs due in respect of grants-in-aid of Rs 1510.95 crore paid during 2001-2002, only UCs for Rs 103.23 crore were furnished to AG by 30 June 2003 and UCs for Rs 1407.72 crore were in arrears. Department-wise and age-wise break up is given in *Appendix VI*.

1.7.3 Delay in submission of accounts by Autonomous Bodies

The status of submission of accounts by the autonomous bodies and submission of Audit Reports thereon to the State Legislature is indicated in *Appendix VII*.

1.8 Assets and Liabilities

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement 16 read with details in Statement 17 of Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. Appendix-1 presents an abstract of such liabilities and the assets as on 31 March 2003, compared with the corresponding position on 31 March 2002. While the liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Account and

Reserve Fund, the assets comprise mainly the capital expenditure and loans and advances given by the State Government.

The liabilities of Government of Bihar depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired State employees, guarantees/ letters of comforts etc. issued by the State Government. **Appendix-IV** depicts the Time Series Data on State Government Finances for the period 1998-2003.

1.8.1 Incomplete projects

As per information received from the State Government, as of 31 March 2003, there were 22 incomplete projects in which Rs 1174 crore were blocked. (Refer: **Appendix -VIII**)

1.8.2 Investments and returns

As on 31 March 2003, Government had invested Rs 694.34 crore in Statutory Corporations, Joint Stock Companies and Co-operatives. Government's return on this investment was negligible as indicated in Table 14 below:

Table 14: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Weighted rate of interest on Government market loans
	(Rupees in crore)			
1998-1999	*644.15	Rs 192/- Only	NIL	12.50
1999-2000	*646.90	1.10	0.17	11.38
2000-2001	*685.47	Rs 4500/- Only	NIL	11.41
2001-2002	*686.67	0.01	NIL	9.00
2002-2003	*694.34	0.02	NIL	7.20

1.8.3 Loans and advances by State Government

In addition to its investment, Government has also been providing loans and advances to many of these bodies. Total outstanding balance of the loans advanced was Rs 8205 crore as on 31 March 2003 (Table 15). Interest received against these advances was meagre varying from 0.04 per cent to 0.65 per cent of the outstanding loans and advances during 1998-2003.

Table 15: Average Interest Received on Loans Advanced by the State Government
(Rupees in crore)

	1998-99	1999-00	2000-01	2001-02	2002-03
Opening Balance	4654.79	5223.26	6282.97	6952.84	7473.60
Amount advanced during the year	578.56	1071.79	680.46	533.71	747.19
Amount repaid during the year	10.09	12.08	10.59	12.95	15.58
Closing Balance	5223.26	6282.97	6952.84	7473.60	8205.21
Net Addition (+) / Reduction (-)	568.47	1059.71	669.87	520.76	731.61
Interest Received	2.31*	22.31	8.58	11.75	53.01

* Differs from the figures shown in the Finance Accounts 2000-2001 and 2001-2002 by Rs 2.19 crore/Rs 2.18 crore due to proforma corrections in rectification of errors in Statement No. 14 of the Finance Accounts for the years prior to 1998-1999.

	(Rupees in crore)				
	1998-99	1999-00	2000-01	2001-02	2002-03
Interest received as <i>per cent</i> to outstanding Loans and advances	0.04	0.36	0.12	0.16	0.65
Weighted rate of interest on Government market loans	12.50	11.38	11.41	9.00	7.20
Difference between interest paid and received	12.46	11.02	11.29	8.84	6.55

1.8.4 Commercial activities

Lack of accountability for the use of public funds in departmental commercial undertakings

Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are to prepare *pro forma* accounts in the prescribed format annually showing the results of financial operation so that the Government can assess the results of their working. The Heads of Departments in the Government are to ensure that the undertakings, which are funded by the budgetary release, prepare the accounts on timely basis and submit the same to Accountant General for audit.

As of March 2003, there were 29 departmentally managed Commercial/Quasi-Commercial undertakings in the State. Of these 26 undertakings detailed in **Appendix-IX** had not prepared Proforma Accounts since their inception. The matter had been taken up with the concerned administrative departments and the Finance Department from time to time.

The Proforma Accounts of three other undertaking were in arrear for varying periods ranging from 16 to 26 years as of March 2003. Relevant details are furnished in **Appendix-X**.

It was seen that none of the undertakings was maintaining its commercial accounts (accounts in double entry system) as prescribed in respect of departmentally managed Commercial/Quasi-commercial undertaking.

1.8.5 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 mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. Bihar had the WMA limit of Rs 245 crore with effect from April 1, 2002 and Rs 305 crore from March 3, 2003.

Table 16: Ways and Means Advances and overdrafts of the State and interest paid thereon

	(Rupees in crore)				
	1998-99	1999-2000	2000-01	2001-02	2002-03
Ways and Means Advances					
Taken in the Year	NIL	3076.07	2144.41	2593.23	7.12
Outstanding	NIL	NIL	NIL	NIL	NIL
Interest Paid	NIL	6.42	10.70	7.86	0.13

* Figure of investment in equity of Statutory Corporations/Government Companies are under reconciliation.

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Overdraft					
Taken in the Year	NIL	109.93	1224.55	3229.53	NIL
Outstanding	NIL	NIL	NIL	NIL	NIL
Interest Paid	NIL	0.03	1.36	3.94	NIL
Number of Days State was in Overdraft	NIL	2	63	123	NIL

1.8.6 Undischarged Liabilities

Fiscal liabilities – public debt and guarantees

The Constitution of India provides that 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 an act of Legislature. However, no such law was passed from the State to lay down any such limit. Statement 4 read with Statements 16 and 17 of Finance Accounts show the year-end balances under Debt, Deposit and Remittances heads from which the liabilities are worked out.

It would be observed that the overall fiscal liabilities of the State increased from Rs 26826 crore in 1998-1999 to Rs 35249 crore in 2002-2003 at an average trend growth rate of 7.60 per cent. These liabilities as ratio to GSDP increased from 40.50 per cent in 1998-1999 to 62.20 per cent in 2002-2003 and stood at 3.21 times of its revenue receipts and 10.14 times of its own resources comprising its own tax and non-tax revenue. Table 17 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP revenue receipts and own resources and buoyancy of these liabilities with respect to these parameters.

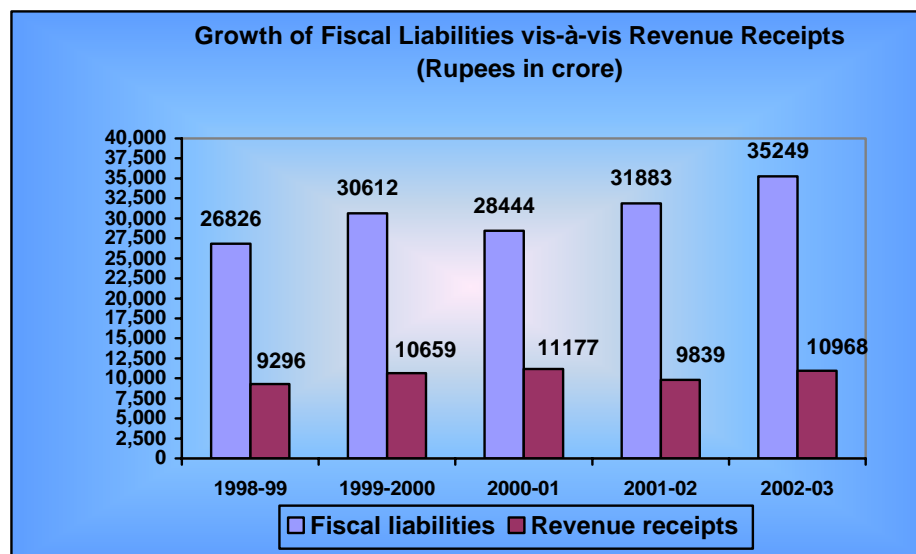
Table 17: Fiscal Imbalances–Basic Parameters

(Rupees in crore and Ratios in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Fiscal Liabilities	26826	30612	28444	31883	35249
Rate of growth	16.31	14.11	(-) 7.08	12.09	10.56
Ratio of Fiscal Liabilities to					
GSDP	40.50	42.50	57.60	62.50	62.20
Revenue Receipts	288.60	287.20	254.50	324.00	321.37
Own Resources	700.80	720.01	807.80	1223.90	1166.46
Buoyancy of Fiscal Liabilities to					
GSDP	1.844	1.604	0.225	3.722	0.944
Revenue Receipts	(-) 8.446	0.963	(-) 1.457	(-) 1.010	0.920
Own Resources	2.912	1.277	0.412	(-)0.465	0.661

In addition to these liabilities, Government had guaranteed loans of its various Corporations and others, which in 2002-2003 stood at Rs 393.44* crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans, there is an obligation on the State to honour these commitments. Currently, the fiscal liabilities including the contingent liabilities exceed over three times the revenue receipts of the State. The direct fiscal liabilities of the State have grown much faster as compared to its rate of growth of GSDP.

* As per the Annual Accounts of the State Companies/Corporations



Another important indication of debt sustainability is net availability of the funds after payment of the principal on account of the earlier contracted liabilities and interest. Table 19 below gives the position of the receipts and repayments of internal debt over the last 5 years. The net funds available on account of the internal debt and loans and advances from Government of India after providing for the interest and repayments declined from 32.59 per cent in 1998-99 to 1.72 per cent during 2002-2003.

Table 19: Net Availability of Borrowed Funds

(Rupees in crore)

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Internal Debt*						
Receipts	734	427	2045	2681	2935	1764
Repayments (Principal + Interest)	596	948	1029	987	923	897
Net Funds Available	138	(-) 521	1016	1694	2012	867
Net Funds Available (per cent)	19	(-) 122.00	50.00	63	69	49.15
Loans and Advances from Government of India						
Receipts	2809	3046	1246	1077	1255	1886.60
Repayments (Principal + Interest)	1792	2180	2264	1926	3195	2271.40
Net Funds Available	1017	866	(-) 1018	(-) 849	(-) 1940	(-) 384.80
Net Funds Available (per cent)	36	28	(-) 82	(-) 79	(-) 155	(-) 20.40
Total Public Debt						
Receipts	3543	3473	3291	3758	4190	3651.00
Repayments (Principal + Interest)	2388	3128	3293	2913	4118	3168.00
Net Funds Available	1155	345	(-)2	845	72	483.00
Net Funds Available (per cent)	32.59	9.93	(-)0.06	22.49	1.72	13.22

* Internal debt excluding ways and means advances

1.9 Management of deficits

1.9.1 Fiscal imbalances

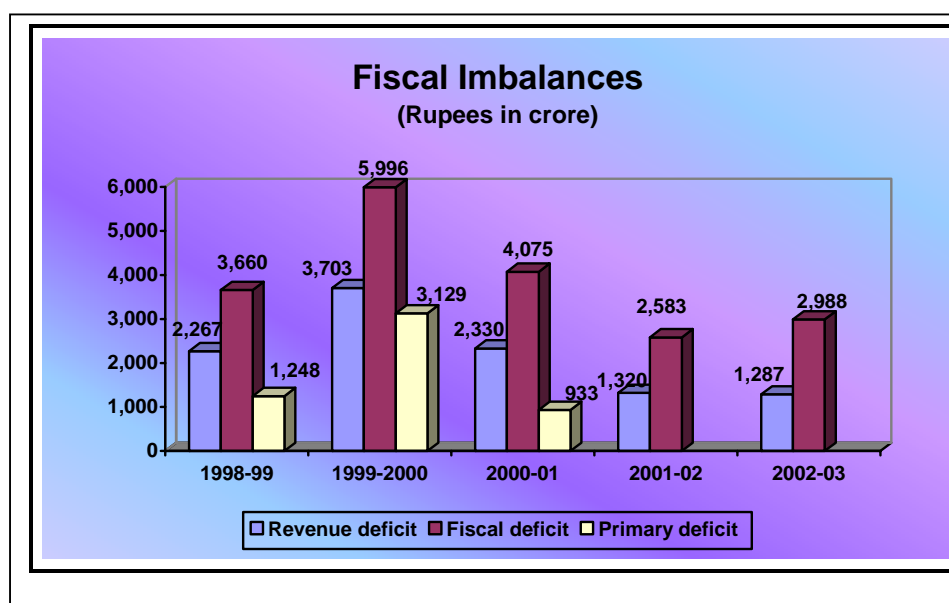
The deficits in Government accounts represent the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised and applied are important pointers to the fiscal health.

The revenue deficit (Statement 1 of Finance Account) of the State, which is the excess of its revenue expenditure over revenue receipts, decreased from Rs 2267 crore in 1998-99 to Rs 1287 crore in 2002-2003. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, also decreased from Rs 3660 crore in 1998-1999 to Rs 2988 crore in 2002-2003. State also had a primary deficit decreasing from Rs 1248 crore in 1998-1999 to (-) Rs 34 crore in 2002-2003. These deficits however do not include the power subsidy of Rs 2963 crore payable to Bihar State Electricity Board as per their latest accounts. As a result, the effective deficits in each case would go up by Rs 2963 crore.

Table 20: Fiscal Imbalances – Basic Parameters

(Value: Rupees in crore and Ratios in per cent)

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Revenue deficit	2267	3703	2330	1320	1287	2181
Fiscal deficit	3660	5996	4075	2583	2988	3860
Primary Deficit (-)/ Surplus (+)	1248	3129	933	(-) 46	(-) 34	1046
RD/GSDP	3.40	5.10	4.70	2.60	2.27	3.69
FD/GSDP	5.50	8.30	8.30	5.10	5.27	6.53
PD/GSDP	1.90	4.30	1.90	(-)0.10	(-)0.06	1.77
RD/FD	62	62	57	51	43	57



The ratio of revenue deficit to fiscal deficit had decreased from 62 *per cent* in 1998-1999 to 43 *per cent* in 2002-2003. As proportion to GSDP, revenue deficit had decreased to 2.27 *per cent* and fiscal deficit to 5.27 *per cent* in 2002-2003.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 21 below presents a summarized position of Government finances over 1998-2003, 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.

The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP. The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. These ratios, show an improvement during 1998-2003 indicating mobilization of resources and its sustainability.

Various ratios concerning expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resources mobilisation. The ratio of revenue expenditure to total expenditure has remained steady around 87-89 *per cent* during the period. The developmental expenditure to total expenditure ratio has steadily declined from 57.04 *per cent* in 1998-99 to 46.69 *per cent* in 2001-02 with an increase to 49.66 *per cent* in 2002-03. The capital expenditure as percentage to total expenditure varied between 6.23 *per cent* and 7.91 *per cent* during 1998-2003.

Table 21: Ratios of Fiscal Efficiency (in *per cent*)

Fiscal Ratios	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Resource Mobilization						
Revenue Receipts/GSDP	14.03	14.79	22.63	19.30	19.35	17.58
Revenue Buoyancy	(-) 0.218	1.666	0.154	(-) 3.686	1.026	(-)0.646
Own Tax/GSDP	4.05	4.28	5.69	4.55	5.35	4.78
Expenditure Management						
Total Expenditure/GSDP	19.57	23.12	30.91	24.39	24.65	24.14
Revenue Receipts/ total expenditure	71.70	63.95	73.23	79.12	78.50	73.30
Revenue expenditure/total expenditure	89.18	86.17	88.50	89.74	87.71	88.14
Capital expenditure	6.65	7.91	7.38	6.23	7.33	7.16
Development Expenditure/total expenditure (RE+CE)	57.04	57.91	52.04	46.69	49.66	52.90
Buoyancy of TE with RR	(-) 5.448	1.947	(-)1.733	1.548	1.077	0.694
Buoyancy of RE with RR	(-) 5.08	1.65	(-)1.23	1.45	0.86	0.62
Management of Fiscal Imbalances						
Revenue deficit (Rs in crore)	2267	3703	2330	1320	1287	2181
Fiscal deficit (Rs in crore)	3660	5996	4075	2583	2988	3860
Primary Deficit (Rs in crore)	1248	3129	933	(-) 46	(-) 34	1046
Revenue Deficit/Fiscal Deficit (Per cent)	62	62	57	51	43	57

Fiscal Ratios	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Management of Fiscal Liabilities						
Fiscal Liabilities/GSDP	40.50	42.50	57.60	62.50	62.20	51.80
Fiscal Liabilities/RR	288.60	287.20	254.50	324.00	321.37	292.80
Buoyancy of FL with RR	(-) 8.446	0.963	(-) 1.457	(-) 1.010	0.920	2.772
Buoyancy of FL with OR	2.912	1.277	0.412	(-)0.465	0.661	0.720
Interest Spread	(-)0.83	(-)1.18	(-)42.13	(-)5.47	2.18	(-)13.85
Net Fund Available	32.60	9.93	(-)0.06	22.49	1.72	13.23
Other Fiscal Health Indicators						
Return on Investment	NIL	0.17	NIL	NIL	NIL	
BCR (Rs in crore)	(-) 1452	(-) 3418	(-) 2387	(-) 1246	(-) 1039	(-) 1908.40
Financial Assets/Liabilities	73	64	73	72	72	70.80

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, large revenue and fiscal deficit year after year, together with low or no return on investments indicate that the State is gradually getting into a debt trap. The State's continuous low or no return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little to it. Investments in loss making companies are not sustainable. The ratio of State's total financial assets to liabilities has also deteriorated indicating that a greater part of liabilities are without an asset back-up. This indicates that either the State has to generate more revenue out of its existing assets or need to provide from its current revenues for servicing its debt obligations. The balance of current revenue of the State has also continued to be negative. The BCR plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces availability of fund for additional infrastructure support and other revenue generating investment.