CHAPTER I

Finances of the State Government

In Summary

Madhya Pradesh had a relatively comfortable financial year. The revenue deficit reduced significantly due to robust growth of 19.45 per cent in the revenue receipts and containment of the growth of revenue expenditure to just 1.33 per cent. As a result, the revenue deficit reduced from Rs.3158 crore in 2001-02 to Rs.1169 crore in 2002-03. Capital expenditure also increased appreciably by 67 per cent from Rs.1471 crore in 2001-02 to Rs.2455 crore in 2002-03, leading to modest growth in fiscal deficit from Rs.3645 crore in 2001-02 to Rs.4062 crore in 2002-03.

The substantial growth in revenue receipts during the year was due to increase of 31.76 per cent in tax revenue, 24.88 per cent in grant-in-aid and 8.43 per cent in central tax devolution. The increase in the tax revenue during the year over 2001-2002 was mainly on Sales Tax (Rs.545 crore), State Excise (Rs.185 crore), Taxes and duties on Electricity (Rs.533 crore) etc. Sales tax was the major source of State's own tax revenue having contributed 47 per cent of the tax revenue followed by State Excise (15 per cent), taxes on Stamps and Registration (9 per cent) etc. Of non-tax revenue sources, Non-Ferrous Mining and Metallurgical Industries (36 per cent) and Forestry and Wildlife (30 per cent) were the principal contributors. The current levels of cost recovery in supply of merit goods and services by Government are 0.27 per cent for secondary education, 0.62 per cent for university and higher education, 1.11 per cent for technical education, 2.76 per cent in health and family welfare, 8.45 per cent in water supply and sanitation and 11.68 per cent in major and medium irrigation.

Overall expenditure of the State increased from Rs.16444 crore in 2001-02 to Rs.17496 crore in 2002-03 at the growth rate of 6.40 per cent. Revenue expenditure, which constituted 83.22 per cent of total expenditure, grew at the rate of 1.33 per cent in 2002-03. There was appreciable decline of Rs.1057 crore in the expenditure on 'Power' in 2002-03 due to decrease in the assistance to State Electricity Board (SEB). Incidentally, the State Government has increased the assistance/subsidy to the SEB to Rs.3114.59 crore in 2003-04 (upto December 2003) from Rs.979.77 crore in 2002-03.

Salaries (Rs.5258 crore), Interest payments (Rs.2502 crore), and Pensions (Rs.1083 crore) alone consumed 66 per cent of total revenue receipts of the State during the year. The overall fiscal liabilities of the State increased from Rs.25948 crore in 1999-2000 to Rs.30340 crore in 2002-2003 even after reorganization of the state. These liabilities as ratio to GSDP increased from 24.20 per cent in 1998-1999 to 36.55 per cent in 2002-2003 and stood at 2.27 times of its revenue receipts.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, the State's low return on investment indicates an implicit subsidy. Also, use of high cost borrowing for investments, with low yields, is not sustainable. Hence, the state should try to eliminate revenue deficit and reduce fiscal deficit to a reasonable level over a medium term framework.

1.1 Introduction

This Chapter discusses the financial position of the Government of Madhya Pradesh based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in receipts and expenditure, the quality of expenditure and the financial management of the State Government. Some of the terms used in this Chapter are described in **Appendix-I.**

In terms of the Madhya Pradesh Re-organisation Act 2000 (No.28 of 2000) 16* districts of the erstwhile State of Madhya Pradesh were transferred to form the new State of Chhattisgarh on 1 November 2000, 'the appointed day'. The apportionment of assets and liabilities of the composite State of M.P., immediately prior to the appointed day as also the other financial adjustments are being done in each case in accordance with the provisions of the Act, ibid. The actual progress achieved in this direction is indicated in **Appendix-II.**

The Finance Accounts of the Government of Madhya Pradesh are laid out in nineteen 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.

* Bastar, Bilaspur, Dantewada, Dhamtari, Durg, Janjgir-Champa, Jashpur, Kanker, Kawardha, Korba, Koriya, Mahasamund, Raigarh, Raipur, Rajnandgaon and Surguja

Box 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 presents detailed account of debt and other interest bearing obligations of the Government.

Statement No.18 provides the detailed account of loans and advances given by the Government, 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 compared to previous year were as under:

(Rupees in crores)

2001-02	Sl. No	Major Aggregates	2002-03
11211	**1.**	**Revenue Receipts (2+3+4)**	13391
4679	2.	Tax Revenue	6165
1602	3.	Non-Tax Revenue	1635
4930	4.	Other Receipts	5591
1588	**5.**	**Non-Debt Capital Receipts**	43
1588	6.	*Of which* Recovery of Loans	43
12799	**7.**	**Total Receipts (1+5)**	13434
12128	**8.**	**Non-Plan Expenditure (9+11)**	11062
11853	9.	On Revenue Account	11040
2254	10.	Of which, Interest Payments	2502
275	11.	On Capital Account	22
270	12.	Of which Loans disbursed	16
4311	**13.**	**Plan Expenditure (14+15)**	6434
2516	14.	On Revenue Account	3520
1795	15.	On Capital Account	2914
329	16.	Of which Loans disbursed	465
5	17.	Inter-State settlement	
16444	**18.**	**Total Expenditure (8+13+17)**	17496
3645	**19.**	**Fiscal Deficit (18-7)**	4062
3158	**20.**	**Revenue Deficit (9+14-1)**	1169
1391	**21.**	**Primary Deficit (+)/surplus (-) (19-10)**	1560

1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the State Government of Madhya Pradesh 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 Statement-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**
11211.08	**I. Revenue receipts**	13390.40	14368.77	**I. Revenue expenditure**	11039.50	3520.30	14559.80
4678.98	Tax revenue	6164.55	5049.49	General services	5324.69	119.99	5444.68
1601.68	Non-tax revenue	1635.48	4582.89	Social Services	3832.21	1452.05	5284.26
3439.30	Share of Union Taxes/Duties	3728.73	4363.49	Economic Services	1476.44	1948.26	3424.70
1491.12	Grants from Govt. of India	1861.64	372.90	Grants-in-aid / Contributions	406.16	--	406.16
				Section-B: Capital			
-	**II Misc. Capital Receipts**	-	1470.64	**II Capital Outlay**	6.43	2448.47	2454.90
1587.65	III. Recoveries of Loans and Advances	42.71	598.58	III Loans and Advances disbursed	16.27	464.43	480.70
3281.00	IV Public debt receipts*	4949.30	521.67	IV Repayment of Public Debt	1493.61	--	1493.61
15012.67	V Public account receipts	20119.55	13569.50	V Public account disbursements	19935.23 #	--	19935.23
--	VI Inter State Settlement	--	5.56	VI. Inter State Settlement	--	--	--
--	VII Amount transferred to Contingency Fund	--	--	VII Expenditure from Contingency Fund	0.05 #	--	0.05
(-) 226.65	**Opening Balance**	331.03	331.03	**Closing Balance**	--	--	(-)91.30
30865.75	***Total***	***38832.99***	***30865.75***	***Total***	***32491.09***	***6433.20***	***38832.99***

* Excluding ways and means advances and over draft.
\# 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 from the statements of the Finance Accounts for the year 2002-03 and wherever necessary, show these in the light of time series data **(Appendix III to VI)** and periodic comparisons.

The key indicators adopted for the purpose 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 mobilization 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.

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 with 1993-94 as base as published by the Bureau 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 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- I**.

The accounts of the state Government are kept in three parts (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account. They are defined in Box 1.3.

Box 1.3
State Government Funds and the Public Account

Consolidated Fund	**Contingency Fund**
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 the 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.

Public Account

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.

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 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 are comprised 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.38503 crore. Of these, the revenue receipts of the State Government were Rs.13391 crore only, constituting 35 per cent of the total receipts. The balance of receipts came from borrowings and public account receipts.

Table 2 – Resources of Madhya Pradesh

(Rupees in crore)

I Revenue Receipts			***13391***
II Capital Receipts			***4992***
a	*Miscellaneous Receipts*	--	
b	*Recovery of Loans and Advances*	*43*	
c	*Public Debt Receipts*	*4949*	
III Public Account Receipts			***20120***
a	*Small Savings, Provident Fund, etc.*	*1109*	
b	*Reserve Fund*	*170*	
c	*Deposits and Advances*	*3791*	
d	*Suspense and Miscellaneous*	*10764*	
e	*Remittances*	*4286*	
Total Receipts			***38503***

1.5.2 Revenue receipts

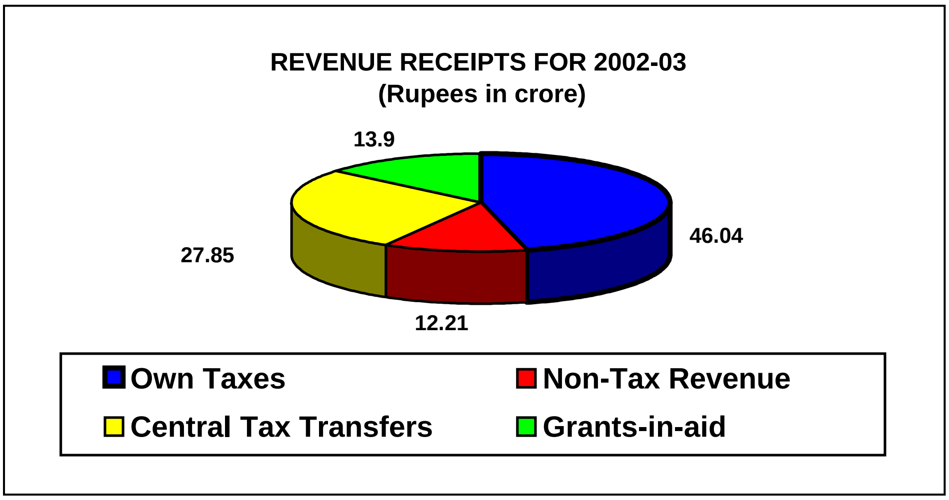
Statement-11 of the Finance Accounts details Revenue Receipts of the Government. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) are indicated in Table 3.

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	11346	13204	12839	11211	13391
Own taxes	45.02	43.89	43.93	41.74	46.04
Non-Tax Revenue	15.71	18.70	13.43	14.29	12.21
Central Tax Transfers	25.84	24.70	30.80	30.68	27.85
Grants-in-aid	13.42	12.71	11.84	13.30	13.90
Rate of Growth	0.79	16.38	Neg	Neg	19.45
Revenue Receipts/GSDP	12.50	13.37	14.52	13.79	16.13

Rate of growth of revenue receipts, which was 16.38 per cent during 1999-2000, prior to reorganisation of the state of Madhya Pradesh (November 2000) increased to 19.45 per cent during the year 2002-03. The increase in the tax revenue during the year over 2001-2002 was mainly on Sales Tax (Rs.545 crore), State Excise (Rs.186 crore), Taxes and duties on Electricity (Rs.533 crore) etc.

While on an average around 58 per cent of the revenue had come from the State's own resources, central tax transfers and grants-in-aid together continued to contribute nearly 42 per cent of the total revenue. Sales tax was the major source of State's own tax revenue having contributed 47 per cent of the tax revenue followed by State Excise (15 *per cent*), taxes on Stamps and Registration (9 per cent) etc. Of non-tax revenue sources, Non-Ferrous Mining and Metallurgical Industries (36 per cent) and Forestry and Wild life (30 per cent) were the principal contributors. The increased receipts under Forestry and Wildlife of Rs.497 crore during the year were however neutralised by equally high expenditure of Rs.485 crore of Forestry and Wildlife. Non-tax revenue in nominal terms, however, has steadily increased from Rs.1602 crore in 2001-02 to Rs.1635 crore in 2002-03. The current levels of cost recovery in



supply of merit goods and services by Government are 0.27 per cent for secondary education, 0.62 per cent for university and higher education, 1.11 per cent for technical education, 2.76 per cent in health and family welfare, 8.45 per cent in water supply and sanitation and 11.68 per cent in major and medium irrigation.

The source of receipts under different heads/sections of Government Account 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
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
1998-99	11346	56	2796	15717	29915	90737
1999-00	13204	314	3462	17170	34150	98768
2000-01	12839	13	3101	16520	32480	88445
2001-02	11211	1588	3281	15013	31093	81286
2002-03	13391	43	4949	20120	38503	83011

1.6 Application of resources

1.6.1 Trend of growth

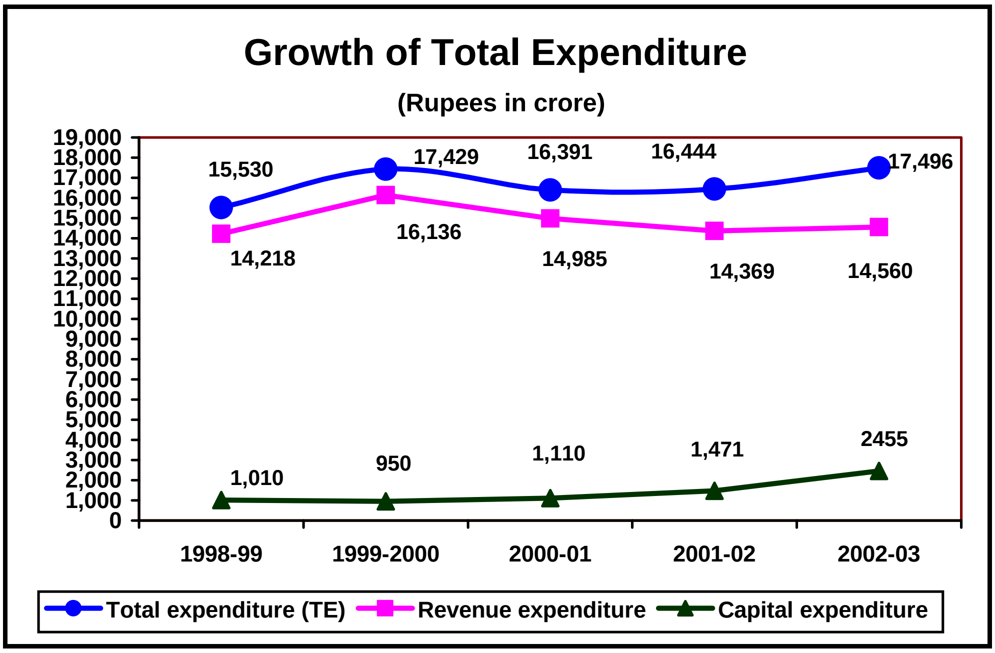
Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure major head wise. The total expenditure of the State, which was Rs.17,429 crore during 1999-2000 remained almost the same (Rs.17,496 crore) despite transfer of some portion of recurring liabilities (assigned) to Chhattisgarh state following re-organisation of states in November 2000.

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	1999-2000	2000-01	2001-02	2002-03
Total Expenditure	15530	17429	16391	16444	17496
Rate of Growth	11.95	12.23	--	--	6.40
TE/GSDP	17.12	17.65	18.53	20.23	21.08
Revenue Receipts/TE	73.06	75.76	78.33	68.18	76.54

The increase in total expenditure in the current year was primarily due to increase of Rs.984 crore under capital outlay. There was upward trend in the ratio of revenue receipts to total expenditure from 73.06 per cent in 1998-1999 to 76.54 per cent in 2002-2003, indicating that approximately 77 per cent of the State's total expenditure was met from its current revenue, leaving the balance to be financed from borrowings.

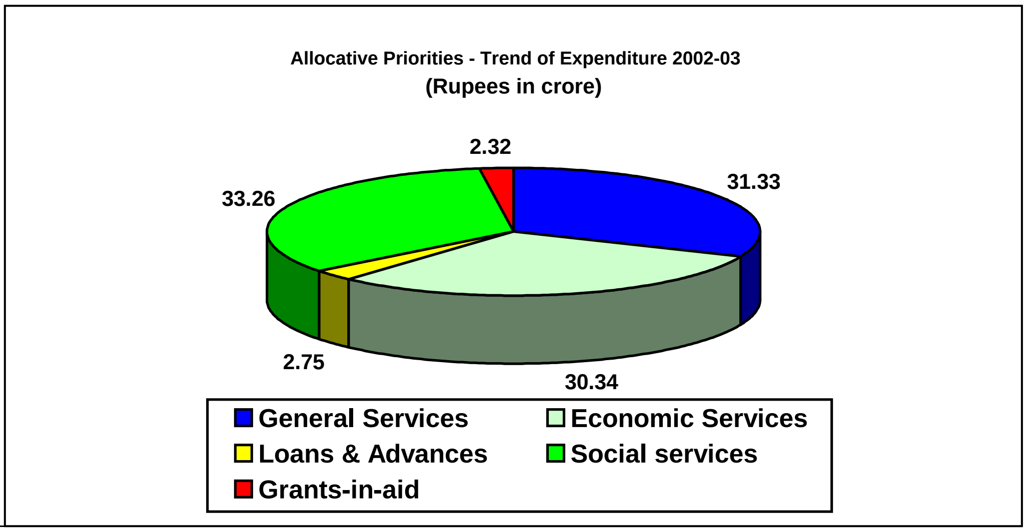


In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services and loans and advances. The relative share of these components in total expenditure is indicated in Table 6.

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

	1998-99	1999-2000	2000-01	2001-02	2002-03
General Services	30.82	30.18	32.57	30.80	31.33
Social Services	37.30	36.75	36.43	28.92	33.26
Economic Services	27.26	27.38	25.97	34.30	30.34
Grants-in-aid	2.68	3.72	3.22	2.27	2.32
Loans and advances	1.94	1.97	1.81	3.64	2.75

The movement of relative share of these components of expenditure indicated that while the share of social services in total expenditure declined from 37.30 *per cent* in 1998-1999 to 33.26 per cent in 2002-2003, the relative share of general services and economic services increased from 30.82 and 27.26 per cent in 1998-99 to 31.33 and 30.34 per cent respectively in 2002-03, indicating the marginal increase in the spending on infrastructure development.



1.6.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is usually incurred to maintain the current level of assets and services. Over all revenue expenditure, its rate of growth, ratio of revenue expenditure to State's 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	14218	16136	14985	14369	14560
Rate of Growth	21.25	13.49	Neg.	Neg.	1.33
RE/ GSDP	15.67	16.34	16.94	17.68	17.54
RE as *per cent* of TE	91.55	92.58	91.42	87.38	83.22
RE as *per cent* to Revenue Receipts	125	122	117	128	109

The marginal increase in the revenue expenditure was mainly due to more expenditure on interest payment (Rs.249 crore), pension and other retirement benefits (Rs.72 crore), general education (Rs.155 crore) and "Relief on account of Natural Calamities" (Rs.249 crore) in comparison to previous year. There was appreciable decline of Rs.1057 crore in the expenditure on 'Power' due to decrease in the assistance to State Electricity Board.

Revenue expenditure accounted for 83 per cent of total funds available during 2002-2003. This was higher than the share of revenue receipts (75 per cent in total receipts) of the State Government, which has led to revenue deficit. Though the ratio of revenue expenditure to revenue receipts declined from 122.21 per cent in 1999-2000 to 108.73 per cent in 2002-03, yet dependence of the State on borrowings, for meeting its current expenditure continues primarily due to the fact that salaries (Rs.5258 crore), Interest payments (Rs.2502 crore), and Pensions (Rs.1083 crore) alone consumed 66 per cent of total revenue receipts of the State during the year.

(a) High salary expenditure

Salaries alone accounted for nearly 39 per cent of the revenue receipts of the State. The expenditure on salaries increased from Rs.4669 crore in 2001-02 to Rs.5258 crore in 2002-03 as indicated in the Table 8 below:

Table 8

(Rupees in crore)

Heads	1998-99	1999-2000	2000-01	2001-02	2002-03
Salary expenditure	6072	6662	5715	4669	5258
As percentage of GSDP	6.69	6.75	6.46	5.74	6.33
As percentage of Revenue Receipts	53.52	50.45	44.51	41.65	39.27

Source: details supplied by Finance Department

(b) Expenditure on pension payments

Pension payments have increased by 7.12 per cent from Rs.1010.76 crore in 2001-02 to Rs.1082.68 crore in 2002-03 mainly due to more expenditure on leave encashment benefits etc.

Year-wise breakup of expenditure incurred on pension payments during the years 1998-99 to 2002-2003 was as under:

Table 9

Year	Expenditure	Percentage to total revenue
	Rupees in crore	
1998-1999	1143.01	10
1999-2000	1195.74	9
2000-2001	962.65	7
2001-2002	1010.76	9
2002-2003	1082.68	8

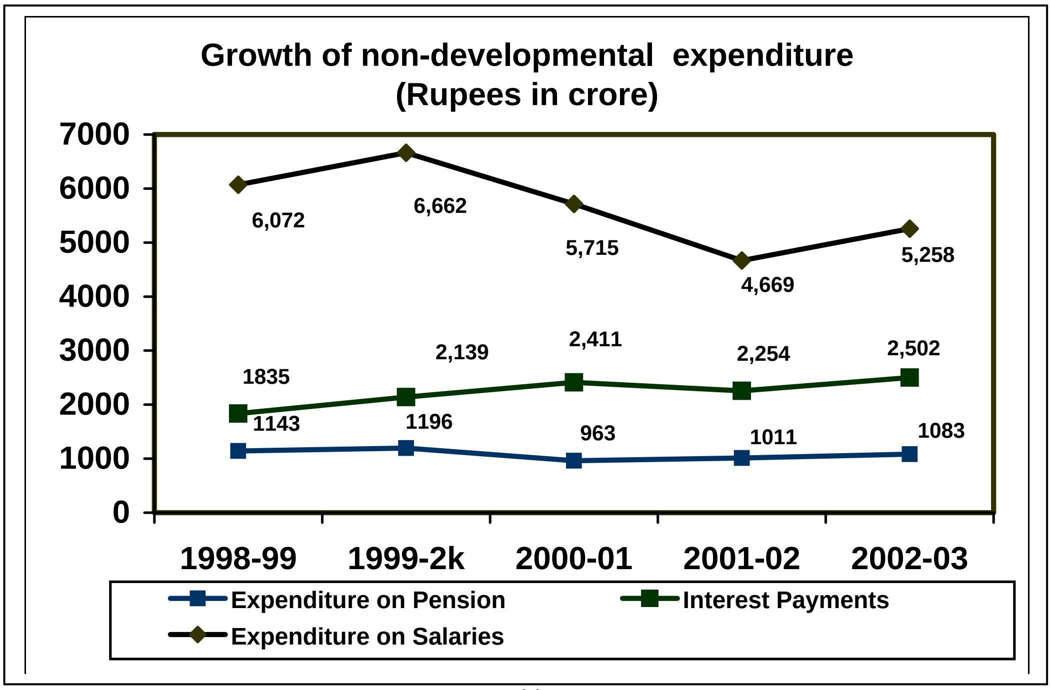
The expenditure declined by Rs.113.06 crore due to re-organisation of the State of Madhya Pradesh (November 2000). With the increase in the number of retirees from 2000-01, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising pension liabilities of the retired State employees. Considering the rate at which pension liabilities are increasing, reforms in the existing pension schemes assume critical importance.

(c) 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 observed, however, that Interest payments as percentage of revenue receipts ranged between 19 and 20 during the last three years.

Table 10

Year	Interest Payment	Percentage of interest payment with reference to	
	(Rupees in crore)	Revenue Receipts	Revenue Expenditure
1998-1999	1835	16.17	12.91
1999-2000	2139	16.20	13.26
2000-2001	2411	18.78	16.09
2001-2002	2254	20.11	15.69
2002-2003	2502	18.68	17.18



Though the interest payments have been increasing steadily (except 2001-02) due to increase in borrowings and interest bearing liabilities, the rate of growth of interest payments which was 17 per cent (1999-2000) prior to re-organisation of state, has come down to 11 per cent during 2002-03 due to transfer of some portion of liabilities to Chhattisgarh State. Large interest payments, year after year, crowd out the expenditure on primary education, health and social welfare schemes.

(d) Subsidies by the Government

Though the finances of the state are under strain, State Government continued to pay subsidies to the various Nigams and Corporations. During the last five years, State Government paid subsidies under various schemes as under:-

(Rs. in crore)

Sl. No.	Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03
1	Madhya Pradesh State Electricity Board	434.89	1170.79	410.33	2037.08	938.88
2	Madhya Pradesh State Road Transport Corporation	1.00	1.20	1.20	1.08	0.00
	Total	**435.89**	**1171.99**	**411.53**	**2038.16**	**938.88**
3	Percentage increase (+)/decrease(-) over previous year	--	(+)168.87	(-)64.89	(+)395.26	(-)53.93
4	Percentage of subsidy with total expenditure*	2.86	6.86	2.56	12.87	5.52

****** Total expenditure excludes Loans and Advances*

***Note:-** Details of subsidies paid to the other Corporations and Nigams are not readily available with Finance Department*

Incidentally, the State Government has increased the assistance/subsidy to the SEB to Rs.3114.59 crore in 2003-04 (upto December 2003) from Rs.979.77 crore in 2002-03.

(e) Incorrect budgeting and classification of expenditure

As per the Rules[$] expenditure on grants-in-aid to local bodies/institutions even for the purpose of creating assets cannot ordinarily be classified as capital expenditure. However, during 2002-03, the State Government booked expenditure of Rs.82.42 crore as grants-in-aid to local bodies/institutions under Capital section of Accounts under Capital Outlay on Urban Development, as follows:

(Rupees in crore)

Sl. No.	Major/Minor Heads	Grants-in-aid to/for	Budget provision	Expenditure
1	4217-60-191-0101-6072	Calamities Management Institute	0.17	0.17
2	4217-01-191-1201-8294	Bhoj Wet Land Conservations	55.00	33.04
3	4217-60-191-1301-5866	Urban Local Bodies for basic amenities	39.07	39.07
4	4217-03-191-1301-5866	-do-	4.12	4.12
5	4217-03-191-0701-1409	Integrated Development Schemes of Small and Medium Towns	4.45	6.02
		Total	**102.81**	**82.42**

[$] Rules 30 and 31 of Government Accounting Rules, 1990

The incorrect classification has not only inflated the Capital outlay by Rs.82.42 crore but has also reduced revenue deficit to that extent.

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

Table 12: Quality of expenditure (*per cent* to total expenditure*)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Plan Expenditure	22.82	21.50	23.54	25.14	35.08
Capital Expenditure	6.63	5.56	6.90	9.29	14.43
Developmental Expenditure	65.84	65.42	63.55	65.63	65.40

* *Total expenditure exclude expenditure on loans and advances.*

Quality-wise analysis of expenditure revealed that there was a relative increase in Plan and Capital components of the expenditure. Plan expenditure from 21.50 per cent of total expenditure in 1999-2000 (prior to reorganisation of State's position) increased to 35.08 per cent in 2002-03. The sharp increase of capital expenditure from 5.56 per cent to 14.43 per cent during the same period, was mainly due to heavy expenditure on social services (Rs.536 crore).

Social services (Rs.5820 crore) accounted for 52 per cent of the developmental expenditure (Rs.11128 crore) during the year. Out of expenditure on Social Sector, 40 per cent was spent on General Education, 16 per cent on Welfare of Schedule Caste/Schedule Tribe/Other Backward Classes, 16 per cent on Social Welfare and Nutrition, 14 per cent on Water and Sanitation and 13 per cent on Health and Family Welfare.

Table 13
Social Sector Expenditure

(Rs. in crore)

Major Head	1998-99	1999-2000	2000-01	2001-02	2002-03
General Education	2612 (2.88)	3059 (3.10)	2763 (3.12)	2126 (2.62)	2312 (2.84)
Medical and Public Health	849 (0.94)	881 (0.89)	862 (0.97)	688 (0.85)	779 (0.90)
Water Supply and Sanitation	658 (0.73)	715 (0.72)	701 (0.79)	608 (0.75)	792 (0.97)
Welfare of SC/ST/OBC	1025 (1.13)	1121 (1.13)	1007 (1.14)	753 (0.93)	937 (1.15)
Social Welfare and Nutrition	556 (0.61)	534 (0.54)	547 (0.62)	501 (0.62)	911 (1.12)
Total	**5700**	**6310**	**5880**	**4676**	**5731**

as percentage of GSDP in brackets

Similarly, the expenditure on Economic Services (Rs.5308 crore) accounted for 48 per cent of the developmental expenditure, of which, Power consumed

25 per cent, Agriculture and Allied Activities 24 per cent and Rural Development 16 per cent.

Table 14
Economic Sector Expenditure

(Rs. in crore)

Major Head	1998-99	1999-2000	2000-01	2001-02	2002-03
Agriculture and Allied Activities	1345	1424	1258	1131	1259
Rural Development	977	788	970	768	855
Power	535	1326	649	2210	1327
Total	**2857**	**3538**	**2877**	**4109**	**3441**

1.7.1 Financial assistance to local bodies and other institutions

(a) Financial assistance to local bodies and other institutions

Autonomous bodies and authorities including local bodies are set up to discharge generally 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 1960 and Companies Act 1956 etc., to implement various programmes of Government.

The quantum of assistance provided to different bodies etc. by the departments test checked during the period of five years ending 2002-2003 was as follows:

(Rupees in crore)

Sl. No.	Name of bodies authorities etc.	1998-99	1999-00	2000-01	2001-02	2002-03
1.	Educational institutions	184.05	132.43	156.20	154.80	134.56
2.	Municipal Corporations and Municipalities	419.12	105.02	190.72	430.72	506.00
3.	Panchayati Raj Institutions	386.99	238.52	218.89	431.90	526.29
4.	Development Agencies	0.44	1.63	9.08	153.05	253.29
5.	Other institutions	159.51	1027.40	189.26	34.25	128.30
	Total	**1147.84**	**1504.83**	**745.25**	**1200.12**	**1541.36**
	Percentage increase (+) decrease (-) over previous year	24 (+)	31 (+)	Not possible*	Not possible@	28 (+)
	Assistance as a percentage of revenue receipt	10	11	Not possible*	11	12

(b) Delay in furnishing utilisation certificates

The Financial rule 179-182 of MPFC Vol.I require that certificates of utilisation are to be obtained by the department officers from the grantees and after verification, these should be forwarded to Accountant General (A&E) upto 30 September of the subsequent financial year.

* Due to re-organisation of State
@ being first complete financial year after Reorganisation of State

One thousand four hundred and two Utilisation certificates for Rs.2637.89 crore for the period from 1991-92 to 2002-03 were not received from 24 institutions under six departments.

(c) Delay in submission of accounts by autonomous bodies

The status of submission of accounts by the autonomous bodies as on January 2004 was as under:

Sl. No.	Name of Bodies	Submission of Accounts	Present Position
1.	Madhya Pradesh Housing Board, Bhopal	1998-99	Accounts for the period 1999-2000 to 2002-03 not received
2.	Madhya Pradesh Khadi and Village Industry, Bhopal	2000-2001	Accounts for 2001-2002 and 2002-03 not received
3.	Madhya Pradesh Human Rights Commission, Bhopal	2001-2002	Accounts for 2002-2003 not received
4.	Director Science and Technology, Madhya Pradesh, Bhopal	2000-2001	Accounts for 2001-2002 to 2002-2003 not received.

(d) Unutilised grants

During 2001-2002 and 2002-03, Rs.253.95 crore were drawn and deposited in Civil Deposit instead of providing as grant to the concerned institutions by Commissioner Urban Administration (Rs.61.62 crore), Commissioner Panchayat and Social Welfare (2001-2002 Rs.167.16 crore: and 2002-2003 Rs.1.89 crore) and Development Commissioner (Rs.23.28 crore).

1.7.2 Misappropriation, defalcations, etc.

State Government reported 1111 cases involving Rs.5.61 crore on account of misappropriation, defalcations etc. of Government money. These cases pertained to the period from 1965-66 to the end of March, 2003 on which final action was pending at the end of December 2003. The department-wise/year-wise and category-wise break-up of pending cases is given in **Appendix-VII and VIII** respectively.

1.7.3 Write off of losses, etc.

During 2002-2003, Rs.12.13 lakh representing losses due to theft, fire and irrecoverable revenue, etc. were written off in 63 cases by competent authorities as reported to audit. The relevant details were shown in **Appendix: IX.**

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 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-III** 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, loans and advances given by the State Government and the cash balances.

The liabilities of Government of Madhya Pradesh, which increased by 14 per cent during the year, do not include the pension, other retirement benefits payable to serving/retired State employees, guarantees/ letters of comfort issued by the State Government. **Appendix-VI** depicts the Time Series Data on State Government Finances for the period from April 1998 to 31 October 2000 of the composite State of Madhya Pradesh and from November 2000 to 31 March 2003 of the successor State of Madhya Pradesh.

1.8.1 Financial results of irrigation works

The financial results of 12 major and medium irrigation projects with revenue expenditure of Rs.250.59 crore during the year showed that revenue realised (Rs.35.22 crore) from these projects during 2002-03 was 14.05 per cent of revenue expenditure, far from sufficient to meet even the expenditure on maintenance.

1.8.2 Incomplete projects

As on 31 March 2003, there were 301 incomplete projects with a cumulative investment of Rs.6459 crore. This showed that the Government was spreading its resources thinly, which failed to yield any return.

1.8.3 Investments and returns

Government as on 31 March 2003, had invested Rs.1702.39 crore in Statutory Corporations, Joint Stock Companies and Co-operatives. However, Government's return on this investment was meagre (less than one per cent) as indicated in Table 17 below. Of these, 3 statuary corporation and 15 government companies with an aggregate investment of Rs.529 crore upto 2002-2003 were incurring losses and their accumulated losses amounted to Rs.3,173 crore as per the accounts furnished by these companies upto 2002-03 (**Appendix–X**).

Thus, Government needs not only to invest the high cost borrowings more judiciously to get better returns, but also address to the losses on account of sick units by disinvestment of such units. During 1996-98, Rs.710 crore were invested in Madhya Pradesh State Electricity Board which was restructured (November 2000) into Chhattisgarh and Madhya Pradesh States but its assets and liabilities were yet to be finalised and redistributed.

Out of the total investment of Rs.1702.39 crore at the end of March 2003, Rs.1628.06 crore of composite State of Madhya Pradesh were retained in M.P. and were yet to be allocated between M.P and Chhattisgarh State (Statutory Corporations (Rs.944.07 crore) Government Companies (Rs.199.54 crore), Co-operative Banks and Societies (Rs.482.91 crore) and Joint-Stock Companies (Rs.1.54 crore).

Table 17: Return on Investment (Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing *(per cent)*
1998-1999	1598.36	1.00	0.06	12.15, 12.50
1999-2000	1637.94	1.81	0.11	12.15, 11.85, 11.00
2000-2001	1679.09	0.31	0.02	10.52, 12.00, 10.82, 10.50
2001-2002	1687.08	1.64	0.10	10.35,9.55, 9.45, 8.50, 8.30, 8.00
2002-2003	1702.39	4.09	0.24	7.80,6.94,6.95, 6.75

1.8.4 Loans and advances by State Government

In addition to its investment, Government has also been providing loans and advances to many local bodies and non-government institutions. Total outstanding balance of the loans advanced was Rs.2440 crore as on 31 March 2003 (Table 18). Overall, interest received against these advances declined sharply from 11.84 per cent to 0.98 per cent during 2002-2003 primarily due to less receipts from State Public Sector undertakings. Further, in most cases, Government orders sanctioning the loans did not specify the terms and conditions for these loans.

Table 18: Average Interest Received on Loans Advanced by the State Government (Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Opening Balance	2570	2816	2845	2991	2002
Amount advanced during the year	302	343	295	599	481
Amount repaid during the year	56	314	13	1588	43
Closing Balance	**2816**	**2845**	**2991*@**	**2002**	**2440**
Net Addition (+) / Reduction (-)	245	29	146	(-)989	438
Interest Received (Rupees in crore)	147	247	157	237	24
Interest received as *per cent* to outstanding Loans and advances	5.22	8.68	5.25	11.84	0.98
Average rate of interest paid by the State	8.36	8.24	10.69	8.51	8.25
Difference between interest paid and received	(-)3.14	0.44	(-)5.44	3.33	(-)7.27

**** Differs by Rs.136 crore allocated to Chhattisgarh State.***

@ Includes Rs.2191 crore retained in Madhya Pradesh pending further apportionment between the successor States.

Repayments, except for the year 2001-02, have constituted only a small percentage of loans advanced during the period 1998-2003. The interest received on these loans has also been meagre indicating not only injudicious but also poor loan administration.

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. Madhya Pradesh had the WMA limit of Rs.275 crore from Ist April 2002 and Rs.345 crore from 3rd March 2003. During the year, the State has used this mechanism for 251 days only as against 290 days last year although it raised borrowings of Rs.1140 crore from the market on five occasions. Resort to overdraft, which is over and above the WMA limits, is all the more undesirable. The State used the OD facilities for 176 days on 22 occasions during the year as against 173 days at 15 occasions last year. In a nutshell, Governments' dependence on over draft from RBI for financing its day to day expenditure has been increasing.

Table 20: Ways and Means 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	2126.98	2926.03	2246.46	2491.64	2306.65
Outstanding	192.54	171.62	--	--	--
Interest Paid	5.31	10.06	8.22	10.51	11.55
Number of days state was in W.MA[$]	129	165	165	290	251
Overdraft					
Taken in the Year	1868.89	2273.74	1220.14	3722.79	4140.40
Outstanding	--	--	--	--	--
Interest Paid	2.66	2.47	2.79	5.08	6.69
Number of Days State was in Overdraft[$]	144	100	47	173	176

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 by 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.25948 crore in 1999-2000 to Rs.30340 crore in 2002-2003. These liabilities as ratio to GSDP increased from 24.20 per cent in 1998-1999 to 36.55 per cent in 2002-2003 and stood at 2.27 times of its revenue receipts and 3.89 times of its own resources comprising its own tax and non-tax revenue. Table 21 below gives the fiscal Liabilities of the State, its rate of growth, ratio of these liabilities to GSDP revenue receipts and own resources.

Table 21: Fiscal Imbalances–Basic Parameters (Rupees in crore and Ratios in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Fiscal Liabilities *	21959	25948	22548	26487	30340
Rate of growth	22.18	18.17			14.55
Ratio of Fiscal Liabilities to					
GSDP	24.20	26.27	25.49	32.58	36.55
Revenue Receipts	193.54	196.52	175.62	236.26	226.57
Own Resources	318.71	313.99	306.19	421.70	388.97

** Fiscal liabilities- Public debt and other liabilities like small savings, reserve funds and deposits etc.*

[$] Information given as per Reserve Bank of India Annual Report

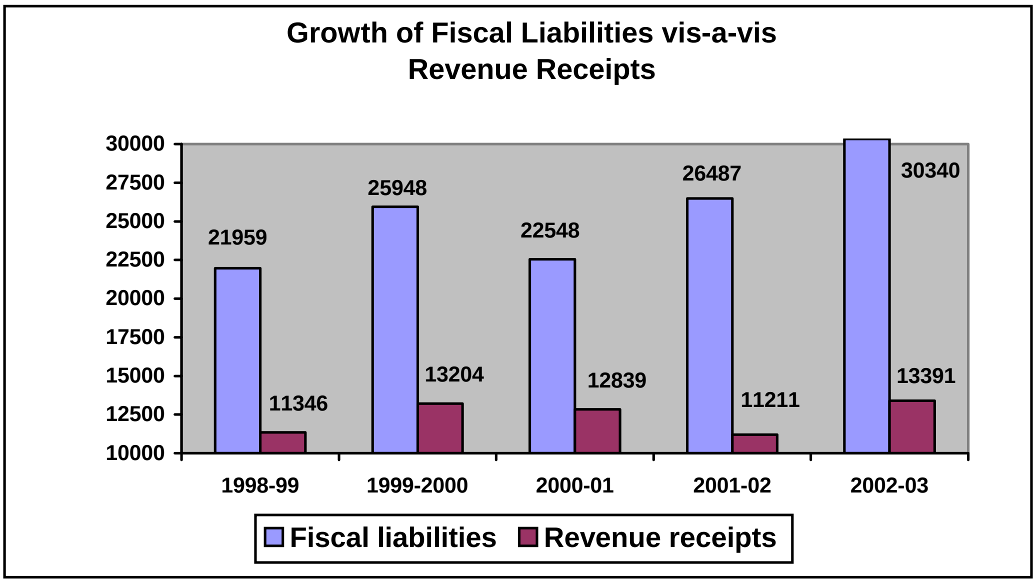
In addition to these liabilities, Government had guaranteed loans of its various Corporations and others, which in 2002-2003 stood at Rs.11572 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans, there may be an obligation on the State to honour these commitments. Currently, the fiscal liabilities including the contingent liabilities exceed 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.

Increasing liabilities had raised the issue of sustainability of State Government. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP.

Debt sustainability with reference to weighted interest rate, GSDP growth rate and interest spread is indicated in Table 22.

Table 22: Debt Sustainability – Interest Rate and GSDP Growth (in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Weighted Interest Rate	9.19	8.93	9.94	9.19	8.81	9.21
GSDP Growth	11.96	8.85	(-)10.45	(-)8.09	2.12	(-)0.91
Interest spread	2.77	(-)0.08	(-)20.39	(-)17.29	(-)6.68	(-)10.12



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 23 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 30 per cent to 28 per cent during 1998-2003.

Table 23: Net Availability of Borrowed Funds (Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Internal Debt*					
Receipts	742	2104	1876	1830	3169
Repayments (Principal + Interest)	543	692	843	906	1105
Net Funds Available	199	1412	1033	924	2064
Net Funds Available (*per cent*)	27	67	55	50	65
Loans and Advances from Government of India					
Receipts	1862	1358	994	1451	1780
Repayments (Principal + Interest)	1268	1527	1494	1368	2468
Net Funds Available	594	(-)169	(-)500	83	(-)688
Net Funds Available (*per cent*)	32	(-)12	(-)50	6	(-)39
Total Public Debt					
Receipts	2604	3462	2870	3281	4949
Repayments (Principal + Interest)	1811	2219	2337	2274	3573
Net Funds Available	793	1243	533	1007	1376
Net Funds Available (*per cent*)	30	36	19	31	28

* Internal debt excluding ways and means advances

The State Government raised market loans of Rs.1139.88 crore during the year. The average interest rate on borrowing during the year was 7.11 per cent whereas the State Government borrowed Rs.1608.30 crore from National Small Saving Fund at the rate of 10.5 per annum and Rs.1780 crore at the rate of 11.5 per cent per annum from Government of India. The State Government did not use the option of raising the market borrowing at competitive rates through auctions. As on 31 March 2003, 70 per cent of the existing market loans of the State Government carried an interest rate exceeding 10 per cent. Thus, the effective cost of borrowings on their past loans is much higher than the rate at which Government is able to raise resources at present from the market. The maturity profile of the State Government market loans indicate that nearly one- third of the total market loans are repayable within next five years while remaining two third loans are required to be repaid within 5 to 10 years.

1.9 Management of deficits

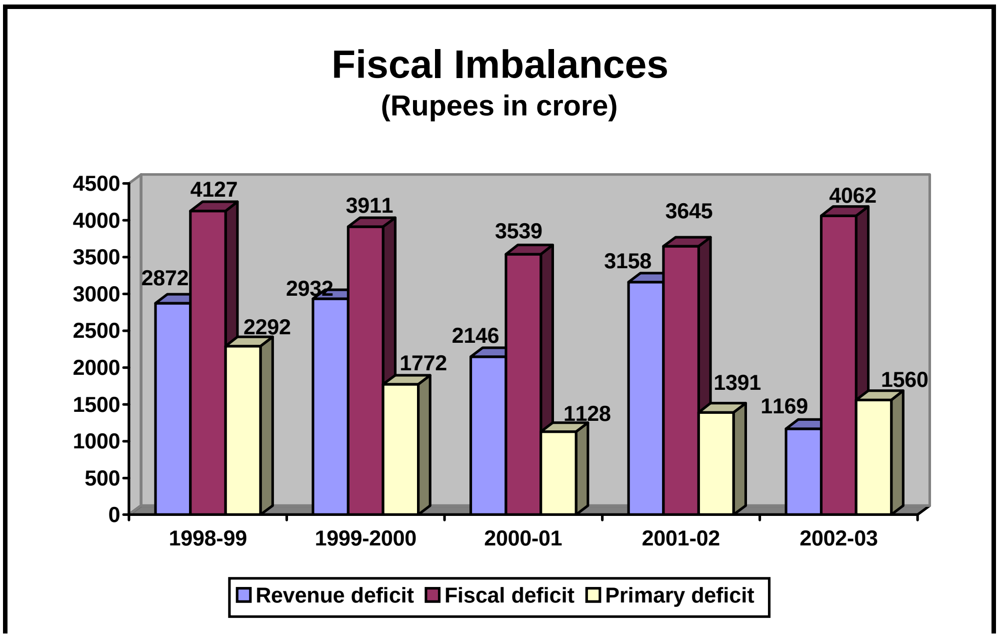
1.9.1 Fiscal imbalances

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 are 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.2872 crore in 1998-99 to Rs.1169 crore in 2002-2003. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, also decreased from Rs.4127 crore in 1998-1999 to Rs.4062 in 2002-2003. State also had a primary deficit decreasing from Rs.2292 crore in 1998-1999 to Rs.1560 crore in 2002-03 as indicated in Table 24.

Table 24: Fiscal Imbalances – Basic Parameters (Value: Rupees in crore and Ratios in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Revenue deficit	2872	2932	2146	3158	1169
Fiscal deficit	4127	3911	3539	3645	4062
Primary Deficit	2292	1772	1128	1391	1560
RD/GSDP	3.17	2.97	2.43	3.89	1.41
FD/GSDP	4.55	3.96	4.00	4.48	4.89
PD/GSDP	2.53	1.79	1.28	1.71	1.88
RD/FD	69.59	74.97	60.64	86.64	28.78



The revenue deficit as percentage of fiscal deficit has decreased from 75 per cent in 1999-2000 to 29 per cent in 2002-2003. As percentage of GSDP, revenue deficit had decreased to 1.41 per cent, fiscal deficit to 4.89 per cent and primary deficit to 1.88 per cent in 2002-03. The deficits are however likely to go up appreciably during 2003-04 as subsidy/assistance to MPSEB has gone up drastically from Rs.979.77 crore in 2002-03 to Rs.3114.59 crore in 2003-04 (upto December 2003).

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 25 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 ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. These ratios, show a continuous improvement during 1998-2003 indicating mobilization of resources and its sustainability.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resources mobilization. While the development expenditure has remained around two-third of the total expenditure during 1998-2003, the capital expenditure as percentage to total expenditure has increased from 6 per cent in 1998-99 to 14 per cent in 2002-2003.

Table 25: Ratios of Fiscal Efficiency (in per cent)

Fiscal Ratios	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Resources Mobilization						
Revenue Receipts/GSDP	12.50	13.37	14.52	13.79	16.13	14.02
Own Tax/GSDP	5.629	5.867	6.377	5.756	7.427	6.193
Expenditure Management						
Total Expenditure/GSDP	17.12	17.65	18.53	20.23	21.08	18.83
Revenue Receipts/ Total Expenditure	73.06	75.76	78.33	68.18	76.54	74.43
Revenue Expenditure/Total Exp.	91.55	92.58	91.42	87.38	83.22	89.17
Capital Expenditure	6.63	5.56	6.90	9.29	14.43	8.61
Development Expenditure/Total Expenditure (RE+CE)	65.84	65.42	63.55	65.63	65.40	65.16
Management of Fiscal Imbalances						
Revenue deficit (Rs. in crore)	2872	2932	2146	3158	1169	2455
Fiscal deficit (Rs. in crore)	4127	3911	3539	3645	4062	3857
Primary Deficit (Rs. in crore)	2292	1772	1128	1391	1560	1629
Revenue Deficit/Fiscal Deficit	69.59	74.97	60.64	86.64	28.78	63.66
Management of Fiscal Liabilities						
Fiscal Liabilities/GSDP	24.20	26.27	25.49	32.58	36.55	28.78
Fiscal Liabilities/RR	193.54	196.52	175.62	236.26	226.57	205.32
Net Fund Available	30	36	19	31	28	29
Other Fiscal Health Indicators						
Return on Investment	0.10	0.06	0.11	0.02	0.39	0.14
BCR (Rs. in crore)	(-)1725	(-)1556	(-)793	(-)1811	791	(-)1019
Financial Assets/Liabilities	0.81	0.73	0.80*	0.71*	0.71*	0.75

* Assets and some of the liabilities are yet to be apportioned and transferred to Chhattisgarh State.

The state has done extremely well this year in reducing the revenue deficit substantially. It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, the State's low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little to it is not sustainable.