

## CHAPTER I

### Finances of the State Government

#### In Summary

The revenue deficit increased from Rs.1169 crore in 2002-03 to Rs.4476 crore in 2003-04 due to 28.88 per cent growth in the revenue expenditure in comparison of the growth of revenue receipt which was just 6.7 per cent. Capital expenditure also increased by 9.12 per cent from Rs.2455 crore in 2002-03 to Rs.2679 crore in 2003-04, leading to growth in fiscal deficit from Rs.3645 crore in 2001-02 to Rs.7323 crore in 2003-04.

The growth in revenue receipts during the year was due to increase of 10.12 per cent in tax revenue and 13.89 per cent in central tax devolution. Sales tax was the major source of State's own tax revenue having contributed 49 per cent followed by State Excise (16 per cent), and Stamp duty and Registration fees (9 per cent). Non tax revenue has decreased from Rs.1635 crore in 2002-03 to Rs.1480 crore in 2003-04. The current levels of cost recovery in supply of merit goods and services by Government are 0.36 per cent for secondary education, 0.30 per cent for university and higher education, 0.59 per cent for technical education, 1.59 per cent in health and family welfare, 7.94 per cent in water supply and sanitation and 16.87 per cent in major and medium irrigation.

Overall expenditure of the State drastically increased from Rs.17496 crore in 2002-03 to Rs.21648 crore in 2003-04. Revenue expenditure, which constituted 86.68 per cent of total expenditure, grew at the rate of 28.88 per cent in 2003-04. This was on account of increased expenditure on power (Rs.2975 crore) for the purpose of assistance to State Electricity Board.

Salaries (Rs.5312 crore), Interest payments (Rs.3206 crore), and Pensions (Rs.1197 crore) alone consumed 68 per cent of total revenue receipts of the State during the year. The overall fiscal liabilities of the State increased from Rs.26487 crore in 2001-2002 to Rs.37525 crore in 2003-2004. These liabilities as ratio to GSDP increased from 32.58 per cent in 2001-2002 to 37.14 per cent in 2003-2004 and stood at 2.64 times 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 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 explained 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 formed 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 carried out 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 Account of the State Government. The layout of the Finance Accounts is depicted in Box 1.

**Box 1**

**Layout 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 2003-04.

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 internal debt, borrowings from 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 2004.

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 2003-2004.

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

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 2003-04.

Statement No.15 depicts the capital and other expenditure to the end of 2003-04 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 2004, 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 that of the previous year were as under:

(Rupees in crore)

2002-03	Sl. No	Major Aggregates	2003-04
13391	1.	<b>Revenue Receipts (2+3+4)</b>	14289
6165	2.	Tax Revenue	6789
1635	3.	Non-Tax Revenue	1480
5591	4.	Other Receipts	6020
43	5.	<b>Non-Debt Capital Receipts</b>	36
43	6.	<i>Of which</i> Recovery of Loans	36
13434	7.	<b>Total Receipts (1+5)</b>	14325
11062	8.	<b>Non-Plan Expenditure (9+11)</b>	15963
11040	9.	On Revenue Account	15949
2502	10.	Of which, Interest Payments	3206
22	11.	On Capital Account	14
16	12.	Of which Loans disbursed	8
6434	13.	<b>Plan Expenditure (14+15)</b>	5685
3520	14.	On Revenue Account	2816
2914	15.	On Capital Account	2869
465	16.	Of which Loans disbursed	196
	17.	Inter-State settlement	-
17496	18.	<b>Total Expenditure (8+13+17)</b>	21648
4062	19.	<b>Fiscal Deficit (18-1-5)</b>	7323
1169	20.	<b>Revenue Deficit (9+14-1)</b>	4476
1560	21.	<b>Primary Deficit (+)/surplus (-) (19-10)</b>	4117

## 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 2003-04 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements made during the year as emerging from Statement-1 of the Finance Accounts and other detailed statements.

*Audit Report (Civil) for the year ended 31 March 2004*

**Table 1 SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2003-2004 (Rupees in crore)**

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
<b>Section-A: Revenue</b>							
					<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
13390.40	<b>I. Revenue receipts</b>	14288.96	14559.80	<b>I. Revenue expenditure</b>	15948.59	2816.13	18764.72
6164.55	Tax revenue	6788.86	5444.68	General services	6536.49	37.09	6573.58
1635.48	Non-tax revenue	1479.82	5284.26	Social Services	3785.13	1536.52	5321.65
3728.73	Share of Union Taxes/Duties	4247.14	3424.70	Economic Services	5036.06	1242.52	6278.58
1861.64	Grants from Govt. of India	1773.14	406.16	Grants-in-aid / Contributions	590.91	--	590.91
<b>Section-B: Capital</b>							
-	<b>II Misc. Capital Receipts</b>	-	2454.90	<b>II Capital Outlay</b>	5.99	2672.65	2678.64
42.71	III. Recoveries of Loans and Advances	35.84	480.70	III Loans and Advances disbursed	8.42	195.94	204.36
4949.30	IV Public debt receipts*	9938.42	1493.61	IV Repayment of Public # Debt	2275.08	--	2275.08
20119.55	V Public account receipts	22285.06	19935.23	V Public account # disbursements	22439.02	--	22439.02
--	VI Inter State Settlement	--	--	VI. Inter State Settlement	--	--	--
--	VII Amount transferred to Contingency Fund	.05	0.05	VII Expenditure from Contingency Fund	1.00	--	1.00
331.03	<b>Opening Balance</b>	-91.30	-91.30	<b>Closing Balance</b>	94.21	--	94.21
<b>38832.99</b>	<b>Total</b>	<b>46457.03</b>	<b>38832.99</b>	<b>Total</b>	<b>40772.31</b>	<b>5684.72</b>	<b>46457.03</b>

\* 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 2003-04 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 Box 1.2

<b>Box 1. 2 Reporting Parameters</b>
<p>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.</p> <p>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.</p> <p>For most series a trend growth during 1999-2004 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in <b>Appendix- I</b>.</p>

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.

<b>Box 1.3 State Government Funds and the Public Account</b>	
<p><b>Consolidated Fund</b></p> <p>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 the State established under Article 266(1) of the Constitution of India.</p>	<p><b>Contingency Fund</b></p> <p>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.</p>
<p style="text-align: center;"><b>Public Account</b></p> <p>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.</p>	

## 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 the Public account.

Table 2 shows that the total receipts of the State Government for the year 2003-04 were Rs.46548 crore. Of these, the revenue receipts of the State Government were Rs.14289 crore only, constituting 31 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)
<b>I Revenue Receipts</b>		<b>14289</b>
<b>II Capital Receipts</b>		<b>9974</b>
a	Miscellaneous Receipts	--
b	Recovery of Loans and Advances	36
c	Public Debt Receipts	9938
<b>III Public Account Receipts</b>		<b>22285</b>
a	Small Savings, Provident Fund, etc.	1200
b	Reserve Fund	367
c	Deposits and Advances	4126
d	Suspense and Miscellaneous	12156
e	Remittances	4436
<b>Total Receipts</b>		<b>46548</b>

### 1.5.2 Revenue receipts

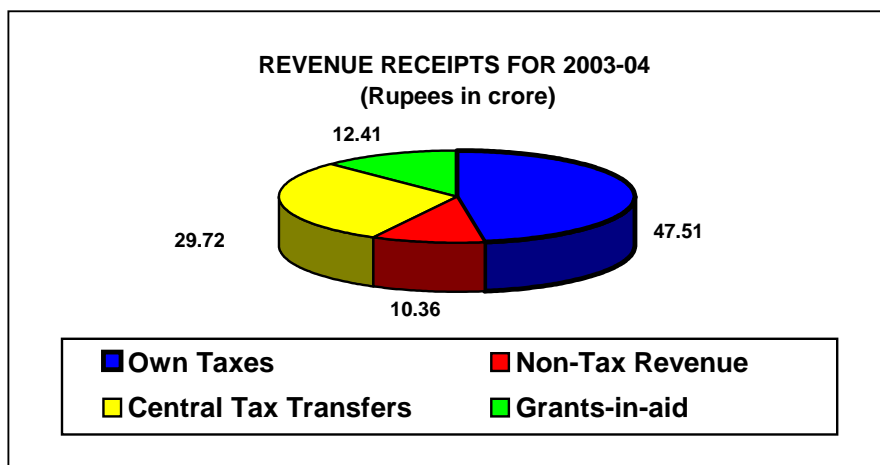
Statement-11 of the Finance Accounts details Revenue Receipts of the Government. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) are indicated in Table 3.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Receipts	13204	12839	11211	13391	14289
Own taxes	43.89	43.93	41.74	46.04	47.51
Non-Tax Revenue	18.70	13.43	14.29	12.21	10.36
Central Tax Transfers	24.70	30.80	30.68	27.85	29.72
Grants-in-aid	12.71	11.84	13.30	13.90	12.41
Rate of Growth	16.38	Neg	Neg	19.45	6.70
Revenue Receipts/GSDP	13.37	14.52	13.79	16.13	14.14
Percentage growth of GSDP	8.851	Neg.	Neg.	2.122	21.703
Revenue Buoyancy	1.851	Neg.	Neg.	9.166	0.309

Rate of growth of revenue receipts, which was 19.45 per cent during 2002-2003 decreased to 6.7 per cent during the year 2003-04. While the receipts from state's own taxes and its assessment of central taxes increased by 10.12 and 13.89 per cent respectively, non-tax receipts and grants-in-aid witnessed a decline.

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 49 per cent of the tax revenue followed by State Excise (16 per cent), taxes on Stamps and Registration (9 per cent) etc. Of non-tax revenue sources, Non-Ferrous Mining and Metallurgical Industries mainly the royalty from minerals (43 per cent) and Forestry and Wild life (33 per cent) were the principal contributors. Non-tax revenue decreased from Rs.1635 crore in 2002-03 to Rs.1480 crore in 2003-04. The current levels of cost recovery in supply of merit goods and services by Government are 0.36 per cent for secondary education, 0.30 per cent for university and higher education, 0.59 per cent for technical education, 1.59 per cent in health and family welfare, 7.94 per cent in water supply and sanitation and 16.87 per cent in major and medium irrigation.



**1.6 Application of resources**

The sources of receipts under different heads/sections of Government Account and GSDP during 1999-2004 are indicated in Table 4.

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

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
1999-00	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
2003-04	14289	36	9938	22285	46548	101027

### 1.6.1 Trend of growth

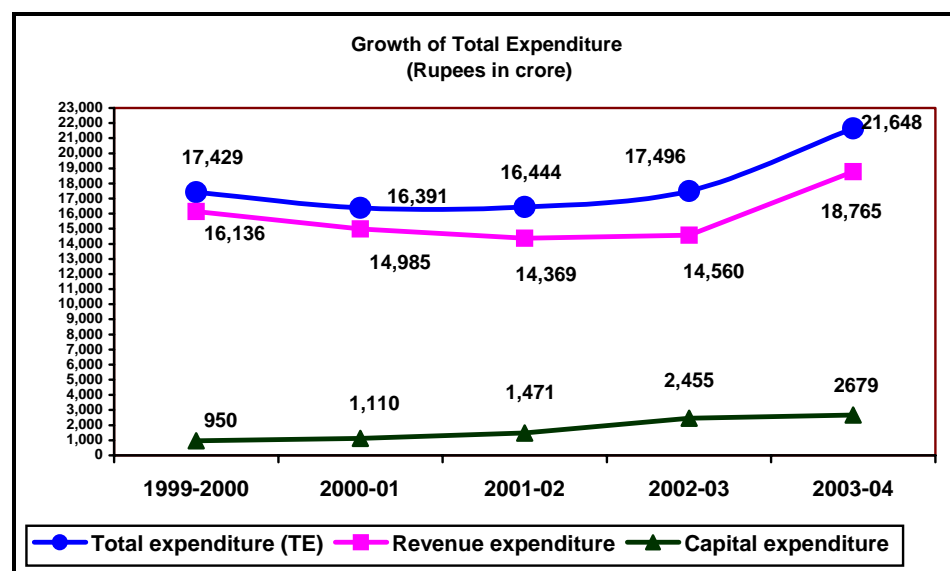
Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure major head wise. The total expenditure of the State increased by 24 per cent during the year.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's 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)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Total Expenditure	17429	16391	16444	17496	21648
Rate of Growth	12.23	--	--	6.40	23.73
TE/GSDP	17.65	18.53	20.23	21.08	21.43
Revenue Receipts/TE	75.76	78.33	68.18	76.54	66.00

The increase in total expenditure in the current year was primarily due to increase of Rs.4205 crore under Revenue section. The ratio of revenue receipts to total expenditure decreased from 68.18 per cent in 2001-02 to 66 per cent in 2003-04 indicating that only 66 per cent of the State's total expenditure was met from its current revenue and the balance of 34 per cent was financed from borrowings.



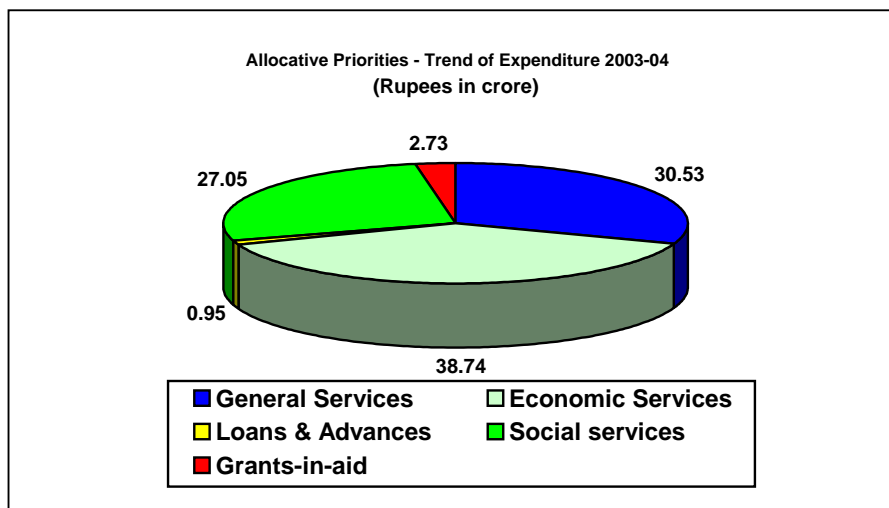
In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services and loans and advances. The relative share of these components in total expenditure is indicated in Table 6.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Services	30.18	32.57	30.80	31.33	30.53
Social Services	36.75	36.43	28.92	33.26	27.05
Economic Services	27.38	25.97	34.30	30.34	38.74
Grants-in-aid	3.72	3.22	2.27	2.32	2.73
Loans and advances	1.97	1.81	3.64	2.75	0.95



The movement of the relative shares of these components of expenditure indicated that while the share of social services in total expenditure declined from 33.26 per cent in 2002-03 to 27.05 per cent in 2003-2004, the relative share of economic services increased from 30.34 per cent in 2002-03 to 38.74 per cent in 2003-04, indicating a step up in expenditure on economic infrastructure.



### 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. Overall 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)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Expenditure	16136	14985	14369	14560	18765
Rate of Growth	13.49	Neg.	Neg.	1.33	28.88
RE/ GSDP	16.34	16.94	17.68	17.54	18.57
RE as <i>per cent</i> of TE	92.58	91.42	87.38	83.22	86.68
RE as <i>per cent</i> to Revenue Receipts	122	117	128	109	131

Revenue expenditure of the state increased from 14560 crore in 2002-03 to 18765 crore in 2003-04. The increase in the revenue expenditure was mainly due to more expenditure on power (2975 crore) on interest payment (Rs.704 crore), pension and other retirement benefits (Rs.114 crore), general education (Rs.68 crore) in comparison to previous year. The increase in expenditure on 'Power' (Rs.2975 crore) was due to more expenditure on assistance to State Electricity Board.

Revenue expenditure constituted 87 per cent of total expenditure during the year 2003-04 and was higher than the share of revenue receipts of the State Government, which led to revenue deficit. The ratio of revenue expenditure to

revenue receipts increased from 109 per cent in 2002-03 to 131 per cent in 2003-04. Dependence of the State on borrowings continued for meeting its current expenditure primarily due to the fact that salaries (Rs.5312 crore), interest payments (Rs.3206 crore), and pension (Rs.1197 crore) together consumed 68 per cent of total revenue receipts of the State during the year.

**(a) High salary expenditure**

Salaries alone accounted for nearly 37 per cent of the revenue receipts of the State. The expenditure on salaries increased from Rs.5258 crore in 2002-03 to Rs.5312 crore in 2003-04. Yearwise expenditure on salaries for the last five years is given in Table 8:

**Table 8**

(Rupees in crore)

Heads	1999-2000	2000-01	2001-02	2002-03	2003-04
Salary expenditure	6662	5715	4669	5258	5312 <sup>u</sup>
As percentage of GSDP	6.75	6.46	5.74	6.33	5.26
As percentage of Revenue Receipts	50.45	44.51	41.65	39.27	37.17

**(b) Expenditure on pension payments**

Pension payments have increased by 10.58 per cent from Rs.1083 crore in 2002-03 to Rs.1197 crore in 2003-04 mainly due to more expenditure on superannuation and retirement allowances and leave encashment benefits.

Year-wise breakup of expenditure incurred on pension payments during the years 1999-2000 to 2003-2004 was as under:

**Table 9**

Year	Expenditure	Percentage to total revenue Receipt
Rupees in crore		
1999-2000	1195.74	9
2000-2001	962.65	7
2001-2002	1010.76	9
2002-2003	1082.68	8
2003-2004	1197.27	8

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**

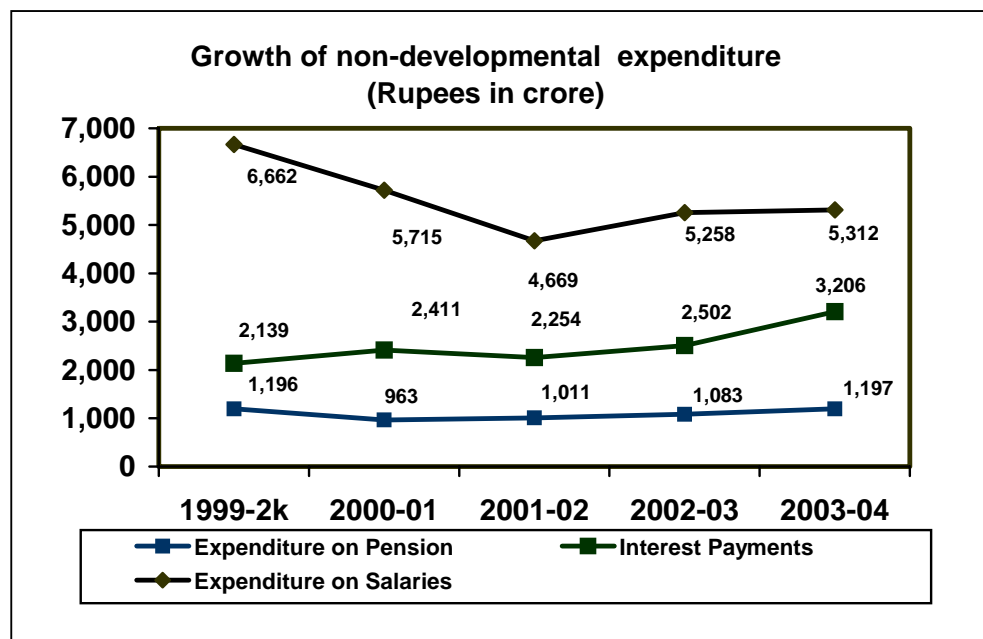
The Eleventh Finance Commission (August 2000) had recommended that as a medium term objective, the States should endeavour to keep interest payment as a ratio to revenue receipts pegged to 18 per cent. It was observed, however,

<sup>u</sup> Source: details supplied by Finance Department

that interest payment as percentage of revenue receipts during the year 2003-04 was 22 per cent.

Table 10

Year	Interest Payment (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
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
2003-2004	3206	22.43	17.08



The rate of growth of interest payments which was 11 per cent during 2002-03 increased to 28 per cent in 2003-04. 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 were under strain, State Government continued to pay subsidies to its Electricity Board and Road Transport Corporation. During the last five years, State Government paid subsidies under various schemes as under.

<i>(Rupees in crore)</i>						
Sl. No.	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
1	Madhya Pradesh State Electricity Board	1170.79	410.33	2037.08	938.88	3924.78
2	Madhya Pradesh State Road Transport Corporation	1.20	1.20	1.08	0.00	2.00
	<b>Total</b>	<b>1171.99</b>	<b>411.53</b>	<b>2038.16</b>	<b>938.88</b>	<b>3926.78</b>
3	Percentage increase (+)/decrease (-) over previous year	(+)168.87	(-)64.89	(+)395.26	(-)53.93	(+) 318.24
4	Percentage of subsidy with total expenditure	6.72	2.51	12.40	5.37	18.14

The sharp fluctuation in subsidies to MPSEB during the year 2003-04 was mainly due to assistance to MPSEB for payment of liabilities to Central Public Sector Undertakings according to Ahluwalia Committee recommendations.

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

Incidentally, the State Government has increased the assistance/subsidy to the SEB to Rs.3924.78 crore in 2003-04.

**(e) Incorrect budgeting and classification of expenditure**

As per the Rules<sup>s</sup>, expenditure on grants-in-aid to local bodies/institutions even for the purpose of creating assets has to be classified as revenue expenditure. However, during 2003-04, the State Government booked expenditure of Rs.22.38 crore on grants-in-aid to local bodies/institutions in the Capital section of the 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
2	4217-01-191-1201-8294	Bhoj Wet Land Conservations	25.00	22.38
		<b>Total</b>	<b>25.00</b>	<b>22.38</b>

The incorrect classification not only inflated the Capital outlay by Rs.22.38 crore but also reduced the revenue deficit to that extent.

**(f) Drawal of funds in advance of requirement**

Financial Rules stipulate that no money should be drawn from the treasury unless it is required for immediate disbursement or for the recoupment of funds disbursed out of any permanent advance. It is also not permissible to draw advances from the treasury for the execution of works, the completion of which is likely to take considerable time. Any unspent balance is required to be refunded promptly to the treasury. The Drawing and Disbursing officers are not authorised by general or specific rules to deposit unutilised funds in bank or post offices.

Test-check of the accounts of four DDOs of the Scheduled Tribes and Scheduled Castes Welfare department revealed (February 2003 to June 2004) that funds amounting to Rs.14.03 crore were drawn for various schemes/development works. Of this, Rs.10.53 crore (78.50 per cent) were lying unutilised in banks and post offices, as per details given in **Appendix VII**.

**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 reflects the allocative priorities of the State. Higher the ratio of these components to total expenditure, better is deemed to be the quality of

<sup>s</sup> Rules 30 and 31 of Government Accounting Rules, 1990

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

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Plan Expenditure	22.92	24.79	26.22	36.77	26.26
Capital Expenditure	5.45	6.77	8.95	14.03	12.38
Developmental Expenditure	64.13	62.40	63.22	63.60	65.79

The plan expenditure which constituted 36.77 per cent of total expenditure during 2002-03 declined to 26.26 per cent during the year. Though capital expenditure increased by Rs.224 crore, its share in the total expenditure declined by two per cent.

Social services (Rs.5857 crore) accounted for 41 per cent of the developmental expenditure (Rs.14243 crore) during the year. Out of the expenditure on Social services, 41 per cent was spent on General Education, 17 per cent on Welfare of Schedule Caste/Schedule Tribe/Other Backward Classes, 14 per cent on Social Welfare and Nutrition, 14 per cent on Water and Sanitation and 14 per cent on Health and Family Welfare.

**Table 13  
Social Sector Expenditure**

(Rupees in crore)

Major Head	1999-2000	2000-01	2001-02	2002-03	2003-04
General Education	3059 (3.10)	2763 (3.12)	2126 (2.62)	2312 (2.84)	2376 (2.35)
Medical and Public Health	881 (0.89)	862 (0.97)	688 (0.85)	779 (0.90)	799 (0.79)
Water Supply and Sanitation	715 (0.72)	701 (0.79)	608 (0.75)	792 (0.97)	820 (0.81)
Welfare of SC/ST/OBC	1121 (1.13)	1007 (1.14)	753 (0.93)	937 (1.15)	979 (0.97)
Social Welfare and Nutrition	534 (0.54)	547 (0.62)	501 (0.62)	911 (1.12)	794 (0.79)
<b>Total</b>	<b>6310</b>	<b>5880</b>	<b>4676</b>	<b>5731</b>	<b>5768</b>

percentage of GSDP in brackets

Similarly, the expenditure on Economic Services (Rs.8386 crore) accounted for 59 per cent of the developmental expenditure, of which, Power consumed 51 per cent (largely in the nature of assistance/ subsidy to the State Electricity Board), Agriculture and Allied Activities 14 per cent and Rural Development 10 per cent.

**Table 14  
Economic Sector Expenditure**

(Rupees in crore)

Major Head	1999-2000	2000-01	2001-02	2002-03	2003-04
Agriculture and Allied Activities	1424	1258	1131	1259	1198
Rural Development	788	970	768	855	833
Power	1326	649	2210	1327	4283
<b>Total</b>	<b>3538</b>	<b>2877</b>	<b>4109</b>	<b>3441</b>	<b>6314</b>

### 1.7.1 Financial assistance to local bodies and other institutions

#### ➤ 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 and 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 the Companies Act 1956 etc., to implement various programmes of the Government. The grants are given by Government mainly for maintenance of educational institutions, hospitals, charitable institutions, construction and maintenance of schools and hospital buildings, improvement of roads and other communication facilities under municipalities and local bodies.

The quantum of assistance provided to different bodies etc. by the departments test checked during the period of last five years ending 2003-2004 was as follows:

(Rupees in crore)

Sl. No.	Name of bodies authorities etc.	1999-2000	2000-2001	2001-2002	2002-2003	2003-04
1.	Educational institutions	132.43	156.20	154.80	134.56	173.96
2.	Municipal Corporations and Municipalities	105.02	190.72	430.72	506.00	557.35
3.	Panchayati Raj Institutions	238.52	218.89	431.90	526.29	524.58
4.	Development Agencies	1.63	9.08	153.05	253.29	21.30
5.	Hospitals and other Medical institutions	0.17	18.90	4.60	7.08	13.71
6.	Other institutions	1027.23	170.36	29.65	121.22	136.10 <sup>†</sup>
	<b>Total</b>	<b>1505.00</b>	<b>764.15</b>	<b>1204.72</b>	<b>1548.44</b>	<b>1427.00</b>
	Percentage increase (+) decrease (-) over previous year	31 (+)	Not possible <sup>*</sup>	Not possible <sup>@</sup>	29 (+)	8 (-)
	Assistance as a percentage of revenue receipt	11	Not possible <sup>*</sup>	11	12	10
	Percentage of assistance to revenue expenditure	9	Not possible <sup>*</sup>	8	11	8

#### ➤ Delay in furnishing utilisation certificate

Financial rules 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.

2271 utilisation certificates for Rs.3901.09crore for the period from 1997-98 to 2003-04 were not received from 23 institutions under six departments as under:-

<sup>†</sup> Includes Rs.22.38 crore shown in para 1.6.2 (e)

<sup>\*</sup> Due to re-organisation of State

<sup>@</sup> Being first complete financial year after Reorganisation of State

Sl. No.	Name of deptt.	No. of institutions	1997-98 to 1999-2000		2000-2001		2001-2002		2002-03		2003-04		Total	
			No	Amt	No	Amt	No	Amt	No	Amt	No	Amt	No	Amt
1.	Education	05				--	70	139.98	59	70.05	134	92.11	263	302.14
2.	Municipal Corporation	01				--	321	430.42	305	504.03	336	557.33	962	1491.78
3.	Panchayatiraj	04				--	90	422.80	152	524.23	127	523.75	369	1470.78
4.	Development Agencies	02				--	92	152.27	89	249.91	32	21.30	213	423.48
5.	Medical	01				--	--	--	--	--	04	13.71	04	13.71
6.	Other departments	10	31	40.77	9	2.09	37	3.87	89	66.15	294	86.32	460	199.20
		23	31	40.77	9	2.09	610	1149.34	694	1414.37	927	1294.52	2271	3901.09

➤ **Delay in submission of accounts by autonomous bodies**

The status of submission of accounts by the autonomous bodies as of October 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 2003-04 not received
2.	Madhya Pradesh Khadi and Gramodyog Board, Bhopal	2001-2002	Accounts for 2002-2003 to 2003-04 not received
3.	Madhya Pradesh Human Rights Commission, Bhopal	2002-2003	Accounts for 2003-04 not received

➤ **Audit arrangement**

The audit of Local Bodies (Nagar Palika, Town Area/Notified Area Committees) some Educational Institutions, some Panchayati Raj Institutions etc. was conducted by the Director of Local Audit Fund, Madhya Pradesh, Gwalior. Audit of Co-operative Societies is conducted by the Registrar, Co-operative Societies Madhya Pradesh, Bhopal.

➤ **Unutilised grants**

During 2003-2004 Rs.121.17 crore were drawn and deposited in Civil Deposit instead of providing grants to the concerned institutions by the Commissioner Urban Administration (Rs.84.70 crore), and the Chief Engineer, Public Health Engineering, Bhopal (Rs.36.47 crore).

### **1.7.2 Misappropriation, defalcations, etc.**

State Government reported 858 cases involving Rs.4.88 crore on account of misappropriation, defalcations etc. of Government money. These cases pertained to the period from 1965-66 to the end of March, 2004 on which final action was pending at the end of June 2004. The department-wise/year-wise and category-wise break-up of pending cases is given in **Appendix-VIII and IX** respectively.

### **1.7.3 Write off of losses, etc.**

During 2003-2004, Rs.12.87 lakh representing losses due to theft, fire and irrecoverable revenue, etc. were written off in 74 cases by competent authorities as reported to audit. The relevant details are shown in **Appendix-X**.

## **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 2004, compared with the corresponding position on 31 March 2003. 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 the Government of Madhya Pradesh, which increased by 24 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 1999 to 31 October 2000 of the composite State of Madhya Pradesh and from November 2000 to 31 March 2004 of the successor State of Madhya Pradesh.

### **1.8.1 Financial results of irrigation works**

The financial results of 13 major and medium irrigation projects with revenue expenditure of Rs.270.13 crore during the year showed that revenue realised (Rs.45.02 crore) from these projects during 2003-04 was 16.66 per cent of revenue expenditure which was far from sufficient to meet even the expenditure on maintenance.



### 1.8.2 Incomplete projects

As on 31 March 2004, there were 453 incomplete projects with a cumulative investment of Rs.7447 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 2004, had invested Rs.1737.29 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 statutory corporation and 14 government companies with an aggregate investment of Rs.529 crore upto 2003-2004 were incurring losses and their accumulated losses amounted to Rs.3886 crore as per the accounts furnished by these companies upto 2003-04 (Appendix–XI).

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 redistributed.

Out of the total investment of Rs.1737.29 crore at the end of March 2004, Rs.1619.56 crore pertained to the composite State of Madhya Pradesh but retained in M.P. pending allocation between M.P and Chhattisgarh State (Statutory Corporations (Rs.935.57 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
1999-2000	1637.94	1.81	0.11
2000-2001	1679.09	0.31	0.02
2001-2002	1687.08	1.64	0.10
2002-2003	1702.39	4.09	0.24
2003-2004	1737.29	8.42	0.48

### 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.2608 crore as on 31 March 2004 (Table 18). Overall, interest received against these advances declined sharply from 11.84 in 2001-02 per cent to 0.42 per cent during 2003-2004 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.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening Balance	2816	2845	2991	2002	2440
Amount advanced during the year	343	295	599	481	204
Amount repaid during the year	314	13	1588	43	36
<b>Closing Balance</b>	<b>2845</b>	<b>2991**@</b>	<b>2002</b>	<b>2440</b>	<b>2608</b>
Net Addition (+) / Reduction (-)	29	146	(-989)	438	168
Interest Received ( Rupees in crore)	247	157	237	24	11
Interest received as <i>per cent</i> to outstanding Loans and advances	8.68	5.25	11.84	0.98	0.42
Average rate of interest paid by the State	8.24	10.69	8.51	8.25	8.54
Difference between interest paid and received	0.44	(-)5.44	3.33	(-)7.27	(-)8.12

\* 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 very small percentage of loans advanced during the period 2000-2004. 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 mismatches 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 1st April 2002 and Rs.345 crore from 3rd March 2003. During the year, the State has used this mechanism for 200 days only as against 251 days last year although it raised borrowings of Rs.2406 crore from the market on eight occasions. Resort to overdraft, which is over and above the WMA limits, is all the more undesirable. The State used the OD facilities for 60 days on 35 occasions during the year as against 176 days at 22 occasions last year. In a nutshell, the 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)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
<b>Ways and Means Advances</b>					
Taken in the Year	2926.03	2246.46	2491.64	2306.65	5330.26
Outstanding	171.62	--	--	--	266.78
Interest Paid	10.06	8.22	10.51	11.55	14.06
Number of days state was in W.MA	165	165	117	103	200
<b>Overdraft</b>					
Taken in the Year	2273.74	1220.14	3722.79	4140.40	1083.54
Outstanding	--	--	--	--	--
Interest Paid	2.47	2.79	5.08	6.69	3.41
Number of Days State was in Overdraft	100	47	172	176	60

### 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.26487 crore in 2001-02 to Rs.37785 crore in 2003-2004. These liabilities as ratio to GSDP increased from 32.58 per cent in 2001-2002 to 37.40 per cent in 2003-2004 and stood at 2.64 times of its revenue receipts and 4.56 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)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Fiscal Liabilities *	25948	22548	26487	30340	37525
Rate of growth	18.17			14.55	23.68
<b>Ratio of Fiscal Liabilities to</b>					
GSDP	26.27	25.49	32.58	36.55	37.14
Revenue Receipts	196.52	175.62	236.26	226.57	262.61
Own Resources	313.99	306.19	421.70	388.97	453.80

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

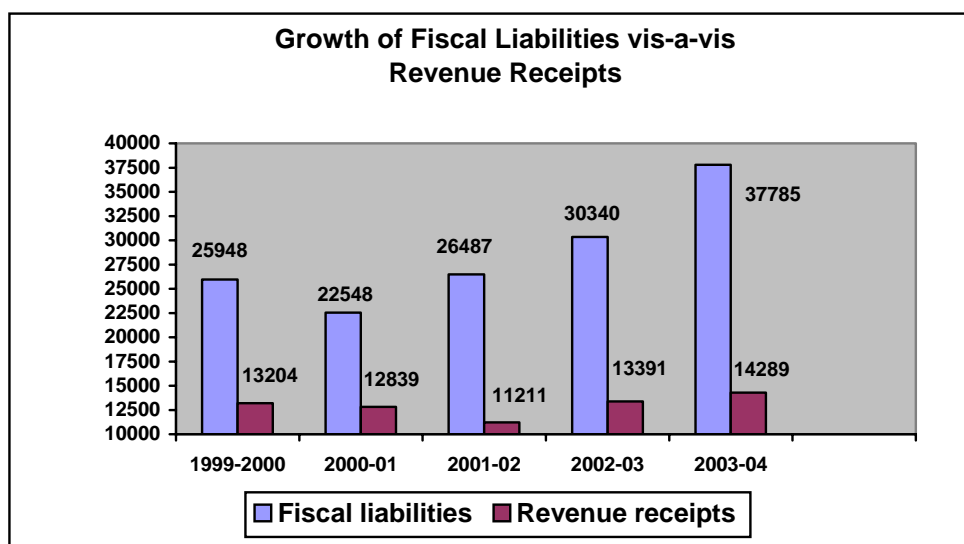
In addition to these liabilities, Government had guaranteed loans raised by various Corporations and others, which in 2003-2004 stood at Rs.12131 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans, there may be an obligation on the State to honour these commitments. The direct fiscal liabilities of the State have grown much faster as compared to its rate of growth of GSDP.

Increasing liabilities 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)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
<b>Weighted Interest Rate</b>	8.93	9.94	9.19	8.81	9.41	9.26
<b>GSDP Growth</b>	8.85	(-)10.45	(-)8.09	2.12	21.70	2.83
<b>Interest spread</b>	(-)0.08	(-)20.39	(-)17.29	(-)6.68	12.29	(-)6.43



Another important indication of debt sustainability is the 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 increased from 31 per cent to 51 per cent during 2001-2004.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
<b>Internal Debt*</b>					
Receipts	2104	1876	1830	3169	7949
Repayments (Principal + Interest)	692	843	906	1105	1857
Net Funds Available	1412	1033	924	2064	6092
Net Funds Available ( <i>per cent</i> )	67	55	50	65	77
<b>Loans and Advances from Government of India</b>					
Receipts	1358	994	1451	1780	1723
Repayments (Principal + Interest)	1527	1494	1368	2468	3158
Net Funds Available	(-)169	(-)500	83	(-)688	(-)1435
Net Funds Available ( <i>per cent</i> )	(-)12	(-)50	6	(-)39	(-)83
<b>Total Public Debt</b>					
Receipts	3462	2870	3281	4949	9672
Repayments (Principal + Interest)	2219	2337	2274	3573	5015
Net Funds Available	1243	533	1007	1376	4657
Net Funds Available ( <i>per cent</i> )	36	19	31	28	48

\* Internal debt excluding ways and means advances

The State Government raised market loans of Rs.2405.82 crore during the year. The average interest rate on borrowing during the year was 6.11 per cent whereas the State Government borrowed Rs.2429.04 crore from National Small Saving Fund at the rate of 9.5 per cent per annum and Rs.1723 crore at the rate of 10.5 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 2004, 56 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.

### **1.8.7 Suppression of internal debt and fiscal deficit**

**Loans of Rs.379.95 crore raised through M.P Adho Sanrachana Board during 2001-02 and 2002-03 were not accounted for under “Internal debt” resulting in suppression of internal debt and fiscal deficit to that extent.**

The Madhya Pradesh Infrastructure Investment Fund Scheme, 2001 for raising loan for infrastructure Project was notified by the Government in April 2001. The loans were to be raised through the M.P Adho Sanrachana Board (Board). The loans were to be guaranteed by the Government. The government was to provide in the annual budget sufficient funds for timely repayment of principal and interest to the investors of loans.

Test-check (October 2004) of the records of Commissioner, Institutional Finance revealed that loans of Rs. 379.95 crore were raised during 2001-02 and 2002-03 by issuing Bonds (Rs.79.95 crore) and from Housing and Urban Development Corporation (HUDCO) (Rs.300 crore) respectively by the Board. Rupees 79.95 crore raised by floating Bonds were deposited in a bank account of the Board and Rs.300 crore raised from HUDCO were deposited in a Personal Deposit Account to be operated by the Commissioner Institutional Finance (Fund Manager). The loans of Rs.79.95 crore raised by floating Bonds and Rs.151.09 crore out of the loan of Rs.300 crore raised from HUDCO have been disbursed to M.P Setu Nigam. The repayment of the loan amounts raised through bonds and HUDCO is being made by the Government regularly. In this regard the following observations are made:-

- Since the repayment of the loans were to be made by the Government, the depositing of the loan amount in Bank Account/ P.D. Account and not accounting in the Government account under the head ‘6003 – Internal Debt’ of the State Government, has resulted in hiding the Internal Debt of the Government, and thereby suppressing the Fiscal Deficit of the State Government, to the extent in the respective years.
- The deposit of Rs.79.95 crore raised through Bonds in a bank account instead of in the proper head of Government account has deprived the

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State Government, in easing the ways & means position of the State Government for the respective years. The interest payment on ways and means advances/over draft would have been avoided to that extent.

- It was noticed that the procedure for obtaining the consent of Government of India was bypassed before raising the loans.
- Amount of Rs.58.88 crore on account of repayment of Bonds/loans and interest thereon was deposited in the bank account (in March 2002 Rs.10.20 crore, March 2003:Rs.21.04 crore and March 2004:Rs.27.63 crore). It was seen that these amounts were drawn from the treasury more than one month in advance of payment to the Bond holders/HUDCO. The amount of Rs.21.04 crore drawn on 31March 2004 is still lying in the bank account of the Board in the shape of FDR. The drawal of Rs.58.88 crore from the treasury much in advance from the date due for repayment had resulted in avoidable loss of interest of Rs.1.87 crore upto September 2004.

The matter was referred to the Government in October 2004; final reply had not been received.

## **1.9 Management of deficits**

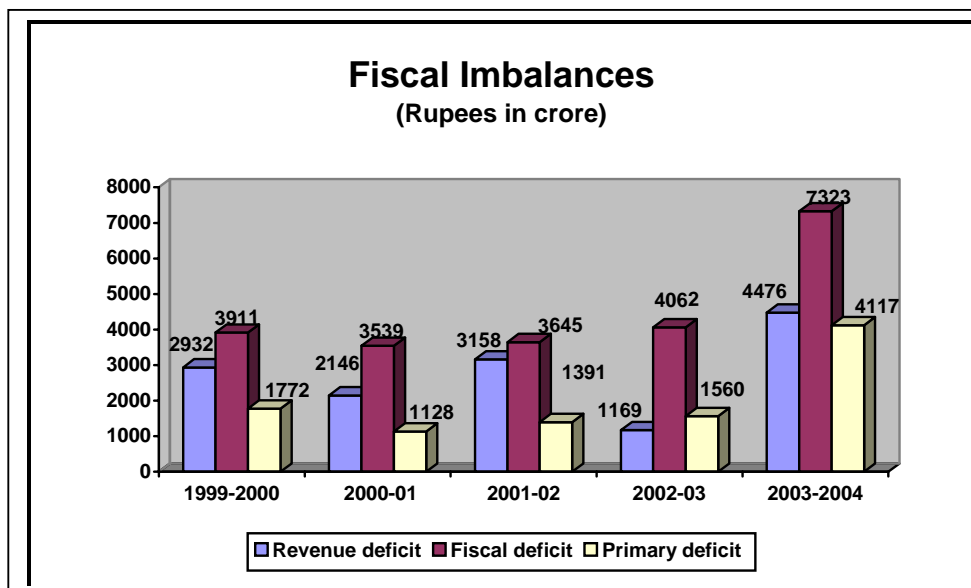
### **1.9.1 Fiscal imbalances**

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, increased from Rs.3158 crore in 2001-02 to Rs.4476 crore in 2003-2004. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, also increased from Rs.3645 crore in 2001-02 to Rs.7323 crore in 2003-2004. State also had a primary deficit increasing from Rs.1391 crore in 2001-02 to Rs.4117 crore in 2003-04 as indicated in Table 24.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue deficit	2932	2146	3158	1169	4476
Fiscal deficit	3911	3539	3645	4062	7323
Primary Deficit	1772	1128	1391	1560	4117
RD/GSDP	2.97	2.43	3.89	1.41	4.43
FD/GSDP	3.96	4.00	4.48	4.89	7.25
PD/GSDP	1.79	1.28	1.71	1.88	4.08
RD/FD	74.97	60.64	86.64	28.78	61.12



The revenue deficit as percentage of fiscal deficit has decreased from 87 per cent in 2001-2002 to 61 per cent in 2003-2004. As percentage of GSDP, revenue deficit had increased to 4.43 per cent, fiscal deficit to 7.25 per cent and primary deficit to 4.08 per cent in 2003-04.

### 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 1999-2004, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

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 1999-2004 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 1999-2004, the capital expenditure as

percentage to total expenditure has increased from 6 per cent in 1999-2000 to 12 per cent in 2003-2004.

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

<b>Fiscal Ratios</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
<b>Resources Mobilization</b>					
Revenue Receipts/GSDP	13.37	14.52	13.79	16.13	14.14
Own Tax/GSDP	5.867	6.377	5.756	7.427	6.720
<b>Expenditure Management</b>					
Total Expenditure/GSDP	17.65	18.53	20.23	21.08	21.43
Revenue Receipts/ Total Expenditure	75.76	78.33	68.18	76.54	66.00
Revenue Expenditure/Total Exp.	92.58	91.42	87.38	83.22	86.68
Capital Expenditure/Total Exp.	5.56	6.90	9.29	14.43	12.49
Development Expenditure/Total Expenditure (RE+CE)	65.42	63.55	65.63	65.40	66.41
<b>Management of Fiscal Imbalances</b>					
Revenue deficit (Rs. in crore)	2932	2146	3158	1169	4476
Fiscal deficit (Rs. in crore)	3911	3539	3645	4062	7323
Primary Deficit (Rs. in crore)	1772	1128	1391	1560	4117
Revenue Deficit/Fiscal Deficit	74.97	60.64	86.64	28.78	61.12
<b>Management of Fiscal Liabilities</b>					
Fiscal Liabilities/GSDP	26.27	25.49	32.58	36.55	37.14
Fiscal Liabilities/RR	196.52	175.62	236.26	226.57	262.61
Net Fund Available	36	19	31	28	48
<b>Other Fiscal Health Indicators</b>					
Return on Investment	0.06	0.11	0.02	0.39	0.48
BCR (Rs. in crore)	(-1556)	(-793)	(-1811)	791	(-3057)
Financial Assets/Liabilities	0.73	0.80*	0.71*	0.71*	0.65 *

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

Increasing revenue and fiscal deficit indicates growing fiscal imbalances of the State. Similarly increase in the ratio of revenue deficit and fiscal deficit indicates that the application of borrowed funds has largely been to meet current consumption. All the indicators of fiscal imbalances show continuous deterioration over time indicting increasing unsustainability and vulnerability of State finances.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, increasing ratio of fiscal liabilities to GSDP and revenue receipts together with a growing revenue deficit, indicate that the State is gradually getting into a debt trap. There has also been a decline in net availability of funds from its borrowings due to a larger portion of these funds being used for debt servicing. The State's low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little to it. 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 from out of its existing assets or need to provide from its current revenues for servicing its debt obligations. 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.