

CHAPTER - I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the State Government, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the Chapter also contains a section on the analysis of indicators of financial performance of the Government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are described in the **Appendix - I**.

1.2 Financial position of the State

In the Government accounting system comprehensive accounting of the fixed assets like land and buildings, *etc.*, owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. The table below gives an abstract of such liabilities and the assets as on 31 March 2000, compared with the corresponding position on 31 March 1999.

(Rupees in crore)

As on 31.03.1999	Liabilities		As on 31.03.2000
316.06		Internal Debt	343.50
	94.19	Market Loans bearing interest	129.16
	--	Market Loans not bearing interest	--
	44.38	Loans from LIC	84.80
	94.27	Loans from other Institutions	103.16
	0.24	Loans from General Insurance Corporation of India	0.24
	25.00	Ways and Means Advances from RBI	16.89
	57.98	Overdraft from Reserve Bank of India	9.25
323.52		Loan and Advances from Central Government	516.79
	64.22	Non-Plan Loans	70.16
	206.04	Loans for State Plan Schemes	235.81
	2.78	Loans for Central Plan Schemes	2.78
	9.31	Loans for Centrally Sponsored Plan Schemes	12.22
	9.76	Loans for Special Schemes	10.85
	31.41	Ways and means advances towards expenditure, <i>etc.</i>	184.97

(Rupees in crore)				
As on 31.03.1999	Liabilities			As on 31.03.2000
0.10		Contingency Fund		0.10
220.66		Small Savings, Provident Funds, etc.		252.90
98.85		Deposits		182.57
3.42		Reserve Funds		4.97
-		Suspense and Miscellaneous Advances		-
545.97		Surplus on Government Account		514.89
		(i) Current year surplus	--	
		(ii) Accumulated Surplus upto March 2000	545.97	
		Less Revenue Deficit of the current year	31.08	
1508.58		Total		1815.72
		Assets		
1358.63		Gross Capital Outlay on Fixed Assets		1508.36
		Investment in Shares on Companies, Corporation, etc.	10.98	
		Other Capital Outlay	1497.38	
161.09		Loans and Advances		194.11
		Loans for Housing	131.51	
		Other Loans	26.96	
		Loans to Government Servants	35.64	
-		Reserve Fund Investment		-
2.06		Advances		2.06
9.79		Suspense and Miscellaneous Balances		73.26
166.65		Remittance Balances		175.04
(-) 189.64		Cash Balance		(-) 137.11
		Cash in Local Treasuries and Local Remittances	--	
		Deposits with Reserve Bank	(-) 137.75	
		Departmental Cash Balance	0.64	
		Permanent Advances	--	
		Cash Balance Investment	--	
1508.58		Total		1815.72

While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. It would be seen from above that while the liabilities had grown by 35 per cent, the growth in assets was 20 per cent which was mainly due to deficit in revenue account.

1.3 Sources and applications of fund

1.3.1 The position of sources and applications of funds during the current and the preceding year is given in the table below:

(Rupees in crore)		
	SOURCES	
1998-99		1999-2000
773.08	1. Revenue receipts	860.84
7.18	2. Recoveries of Loans and Advances	9.31
159.80	3. Increase in Public debt	220.71
(-) 64.92	4. Net receipts from Public account	45.66
	-Increase in Small Savings	32.24
	-Increase in Deposits and Advances	83.72
	-Increase in Reserve Funds	1.56
	-Net effect of Suspense and Miscellaneous transactions	(-) 63.47
	-Net effect of Remittance transactions	(-) 8.39
...	5. Net effect of Contingency Fund transactions	--
3.93	6. Decrease in closing cash balance	--
879.07	Total	1136.52
	APPLICATION	
695.05	1. Revenue expenditure	891.92
38.28	2. Lending for development and other purposes	42.34
145.74	3. Capital expenditure	149.73
---	4. Net effect of Contingency Fund transactions	---
---	5. Increase in closing cash balance	52.53
879.07	Total	1136.52

The main sources of funds include the revenue receipts of the Government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and for developmental purposes. It would be seen that the revenue receipts constitute the most significant source of fund for the State Government. While their relative share went down from 87.94 *per cent* in 1998-99 to 75.74 *per cent* during 1999-2000, the share of recoveries of loans and advances remained steady at 0.82 *per cent*. The net receipts from the Public Account, however, increased significantly as their share went up from (-) 7.38 *per cent* in 1998-99 to 4 *per cent* in 1999-2000. This was mainly due to increase in deposits and advances. The receipts from the public debt went up significantly from 18.18 *per cent* to 19.42 *per cent*.

1.3.2 The funds were mainly applied for revenue expenditure, whose share went down from 79.07 *per cent* in 1998-99 to 78.47 *per cent* in 1999-2000. Nevertheless the percentage of capital expenditure went down from 16.58 to 13.17 and lending for development purposes went down from 4.35 *per cent* to 3.73 *per cent*. However, there was an increase in closing cash balance.

1.4 Financial operations of the State Government

1.4.1 Exhibit I (page 19) gives the details of the receipts and disbursements made by the State Government. The Revenue expenditure (Rs.891.92 crore) during the year exceeded the revenue receipts (Rs.860.84 crore) resulting in revenue deficit of Rs.31.08 crore. The Revenue receipts comprised of tax revenue (Rs.10.73 crore), non-tax revenue (Rs.41.35 crore), State's share of union taxes and duties (Rs.325.04 crore) and grants-in-aid from the Central

Government (Rs.483.72 crore). The main sources of tax revenue were sales tax (33 per cent), taxes on vehicles (17 per cent), land revenue (12 per cent), State excise (9 per cent) and other taxes (24 per cent). Non-tax revenue came mainly from Power (32 per cent), General Services (27 per cent) and Forestry and Wildlife (10 per cent).

1.4.2 The capital receipts comprised of Rs.9.31 crore from recoveries of loans and advances and Rs.341.97 crore from public debt. Against this, the expenditure was Rs.149.73 crore on capital outlay, Rs.42.34 crore on disbursement of loans and advances and Rs.121.26 crore on repayment of public debt. The receipts in the Public Account amounted to Rs.525.14 crore, against which the disbursement of Rs.479.48 crore were made. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was an increase in the cash balance from Rs. (-)189.64 crore at the beginning of the year to Rs. (-)137.11 crore at the end of the year.

1.4.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in **Exhibit I** and the time series data for the five years period from 1995-96 to 1999-2000 detailed in the table below:

TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1995-96	1996-97	1997-98	1998-99	1999-2000
(1)	(2)	(3)	(4)	(5)	(6)
Part A. Receipts					
I. Revenue Receipts	619.28	658.67	679.89	773.08	860.84
(i) Tax Revenue	5.79	6.67	7.87	9.20	10.73
Agricultural Income Tax	-	-	-	-	-
Sales Tax	1.60	1.99	2.51	2.87	3.61
State Excise	0.83	0.89	0.91	0.90	0.93
Taxes on Vehicles	0.79	0.93	1.33	1.53	1.83
Stamps and Registration fees	0.00	0.00	0.06	0.09	0.08
Land Revenue	0.79	0.80	0.68	1.04	1.26
Taxes on goods and passengers	0.31	0.31	0.33	0.34	0.39
Other Taxes	1.47	1.75	2.05	2.43	2.63
(ii) Non Tax Revenue	41.31	46.42	45.75	36.18	41.35
(iii) State's share of Union Taxes	123.67	181.78	208.81	316.98	325.04
(iv) Grants-in-aid from GOI	448.51	423.80	417.46	410.72	483.72
2. Misc. Capital Receipts	-	-	-	-	-
3. Total Revenue and Non-debt capital receipts (1+2)	619.28	658.67	679.89	773.08	860.84
4. Recoveries of Loans and Advances	3.89	4.62	5.66	7.18	9.31
5. Public Debt Receipts	75.46	202.52	146.23	250.80	341.97
Internal Debt (excluding Ways & Means Advances and Overdrafts)	32.58	35.04	39.53	75.09	91.84
Net transactions under Ways & Means Advances and Overdraft	11.63	111.18	-	64.01	-
Loans and advances from GOI*	31.25	56.30	106.70	111.70	250.13
6. Total receipts in Consolidated Fund (3+4+5)	698.63	865.81	831.78	1031.06	1212.12

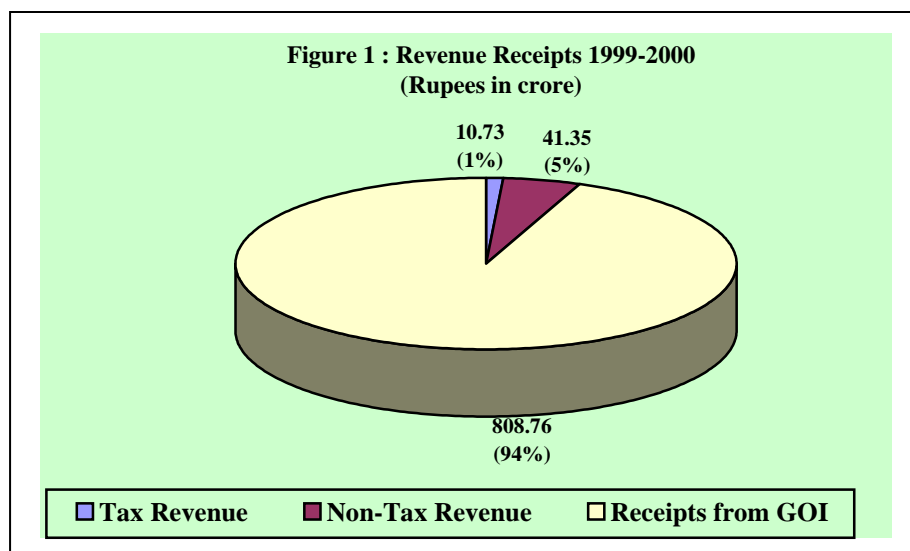
* Include Ways and Means Advances from GOI.

(Rupees in crore)

(1)	(2)	(3)	(4)	(5)	(6)
7. Contingency Fund Receipts	-	-	-	-	-
8. Public Account Receipts	625.78	482.04	606.77	494.40	525.14
9. Total Receipts of the State (6+7+8)	1324.41	1347.85	1438.55	1525.46	1737.26
Part B. Expenditure/Disbursement					
10. Revenue Expenditure	564.72	621.91	660.67	695.05	891.92
Plan	173.62	185.14	178.32	211.90	304.31
Non-Plan	391.10	436.77	482.35	483.15	587.61
General Services	164.75	183.94	216.53	224.83	294.07
Economic Services	205.71	208.67	206.42	211.15	261.56
Social Services	194.26	229.30	237.72	259.07	336.29
Grants-in-aid and Contributions	-	-	-	-	-
11. Capital Expenditure	132.95	159.50	165.09	145.74	149.73
Plan	127.95	149.00	166.22	126.99	165.23
Non-Plan	5.00	10.50	(-) 1.13	18.75	(-) 15.50
General Services	4.74	3.36	6.24	4.36	8.01
Social Services	27.65	33.83	19.76	28.47	36.92
Economic Services	100.56	122.31	139.09	112.91	104.81
12. Loans and Advances given	12.75	17.38	22.37	38.28	42.34
13. Total (10+11+12)	710.42	798.79	848.13	879.07	1083.99
14. Repayments of Public Debt	15.22	38.34	202.86	91.00	121.26
Internal Debt (excluding Ways and Means Advances and Overdrafts)	10.03	5.75	7.84	9.55	7.56
Net Transactions under Ways and Means Advances and Overdraft	-	-	119.59	-	56.84
Loans and Advances from GOI	5.19	32.59	75.43	81.45	56.86
15. Appropriation to Contingency Fund	-	-	-	-	-
16. Total disbursement out of Consolidated Fund (13+14+15)	725.64	837.13	1050.99	970.07	1205.25
17. Contingency Fund Disbursement	-	-	-	-	-
18. Public Account Disbursement	614.36	470.22	458.32	559.32	479.48
19. Total disbursement by the State (16+17+18)	1340.00	1307.35	1509.31	1529.39	1684.73
Part C. Deficits					
20. Revenue Deficit (-)/ Surplus (+) (1-10)	54.56	36.76	19.22	78.03	(-) 31.08
21. Fiscal Deficit (3+4-13)	87.25	135.50	162.58	98.81	213.84
22. Primary Deficit (21-23)	52.51	87.77	96.79	24.59	120.12
Part D. Other data					
23. Interest payments (included in the revenue expenditure)	34.74	47.73	65.79	74.22	93.72
24. Arrears of Revenue (Percentage of Tax and Non-tax Revenue Receipts)	NA	NA	NA	NA	NA
25. Financial Assistance to local bodies etc	NA	19.01	44.88	33.28	41.36
26. Ways and Means Advances/Overdraft availed (days)	29	134	102	118	165
27. Interest on WMA/Overdraft	0.10	0.90	1.15	0.61	4.21
28. Gross State Domestic Product	936.54	1072.34	1123.19	1302.90	1459.25
29. Outstanding Debt (year end)	478	678	657	860	1113
30. Outstanding guarantees (year end)	0.69	0.69	0.69	0.69	48.83
31. Maximum amount guaranteed (year end)	NA	NA	NA	NA	55.08
32. Number of incomplete projects	NA	NA	NA	24	17
33. Capital blocked in incomplete projects	NA	NA	NA	2.11	123.46

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure I. The growth of revenue receipts during 1995-96 to 1999-2000 varied between 6 per cent (1996-97) to 14 per cent (1998-99). The increase in current year from those in 1998-99 was 11 per cent.



1.5.2 Tax revenue

These constitute negligible share (1 per cent) of the revenue receipts and the share remained constant during 1995-96 to 1999-2000 in spite of increase in the growth rate of tax revenue at an average rate of 17 per cent.

1.5.3 Non-tax revenue

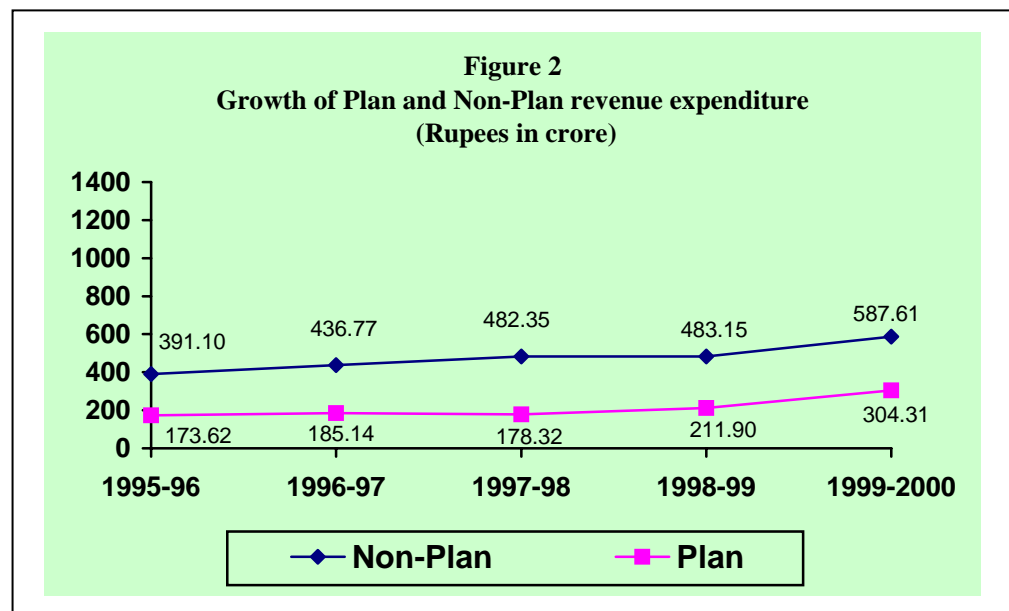
The non-tax revenue remained constant at 7 per cent of the revenue receipts during 1995-96 to 1997-98 and sharply declined to 5 per cent in 1998-99 and 1999-2000 since there was decline in the collection of non-tax revenue from 1998-99 onwards compared to the collections of 1996-97 to 1997-98.

1.5.4 State's share of Union taxes and duties and grants-in-aid from the Central Government

The State's share of Union taxes (excise duties and income and corporation taxes) increased by 3 per cent during the year, while the grants-in-aid from the Central Government increased by 18 per cent. However, as a percentage of revenue receipts they (both taken together) increased from 92 per cent in 1995-96 to 94 per cent during 1999-2000.

1.6 Revenue expenditure

1.6.1 The revenue expenditure accounted for most (86 per cent) of the expenditure of the State Government and increased by 28 per cent during 1999-2000. The share in non-plan expenditure during 1999-2000 was 66 per cent of revenue expenditure against 34 per cent under plan. The trend analysis shows the growth under non-plan is faster than the plan side as shown in Figure 2.



1.6.2 Sector wise analysis shows that while the expenditure on general services increased by 78 per cent from Rs.164.75 crore in 1995-96 to Rs.294.07 crore in 1999-2000, the corresponding increases in expenditure on Social Services and Economic Services were only 73 and 27 per cent respectively. As a proportion of total expenditure, the share of General Services increased from 29 per cent in 1995-96 to 33 per cent in 1999-2000, and that of Social Services from 35 per cent to 38 per cent whereas the share of Economic Services decreased from 36 per cent to 29 per cent.

1.6.3 Interest payments

Interest payments increased steadily by 170 per cent from Rs.34.74 crore in 1995-96 to Rs.93.72 crore in 1999-2000. This is further discussed in the section on financial indicators.

1.6.4 Financial assistance to local bodies and other institutions

The quantum of assistance in the form of grants provided to different local bodies, etc., during the period of four years ending 1999-2000 was as follows:

(Rupees in crore)					
	1995-96	1996-97	1997-98	1998-99	1999-2000
Universities and Educational Institutions	NA	---	12.03	33.12	-
District Councils	NA	---	30.97	NIL	40.98
Other institutions	NA	19.01	1.88	0.16	0.38
Total :	---	19.01	44.88	33.28	41.36
Percentage of growth over previous year			136	(-) 26	24
Assistance as a percentage of revenue expenditure		3	7	5	5

1.6.5 Loans and Advances by the State Government

The Government gives loans and advances to Government companies, local bodies, autonomous bodies, cooperatives, non-Government institutions, *etc.*, for developmental and non-developmental activities. The position for the last five years given below shows that the repayment was very low all along which resulted in increase of closing balance by 93 per cent.

(Rupees in crore)					
	1995-96	1996-97	1997-98	1998-99	1999-2000
Opening balance	91.67	100.53	113.28	129.99	161.09
Amount advanced during the year	12.75	17.38	22.37	38.28	42.34
Amount repaid during the year	3.89	4.62	5.66	7.18	9.31
Closing balance	100.53	113.28	129.99	161.09	194.11
Net addition	8.86	12.76	16.71	31.10	33.03
Interest received	2.53	0.43	0.38	0.50	0.70

1.7 Capital expenditure

1.7.1 Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government, i.e. public sector undertakings (PSUs), corporations, *etc.*, and loans and advances. The capital expenditure showed declining trend since 1997-98. The share of Capital expenditure to total expenditure has dropped from 19 per cent in 1995-96 to 14 per cent in 1999-2000. Table in Paragraph 1.4.3 shows that most of the capital expenditure has been on Economic and Social Services and on the plan side.

1.8 Quality of expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan and Revenue and Capital. While the Plan and Capital expenditure are usually associated with asset creation, the non-plan and

revenue expenditure are identified with expenditure on establishment, maintenance and services. By definition, therefore, in general, the Plan and Capital expenditure can be viewed as contributing to the quality of expenditure.

1.8.2 Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General Services, to the detriment of Economic and Social Services.

1.8.3 The following table lists out the trend in these indicators:

	1995-96	1996-97	1997-98	1998-99	1999-2000
1. Plan expenditure as a percentage of:					
- Revenue expenditure	31	30	27	30	34
- Capital expenditure	96	93	101	78	110
2. Capital expenditure (<i>per cent</i>)	19	20	20	17	14
3. Expenditure on General Services (<i>per cent</i>)					
- Revenue	29	30	33	32	33
- Capital	4	2	4	3	5
4. Amount of wastage and diversion of funds detected during test audit	-	-	-	-	-
5. Non-remunerative expenditure on incomplete projects (Rupees in crore)	-	-	-	2.11	123.46

It would be seen that the share of Capital expenditure to total expenditure has been declining after 1997-98. The expenditure on General Services had a marginal variation on both the revenue and capital sides during 1995-96 to 1999-2000. The funds blocked in incomplete projects increased to Rs.123.46 crore during current year from Rs.2.11 crore in previous year implying negativity on the quality of expenditure.

1.9 Financial Management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the

Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government, are discussed in this section.

1.9.1 Investments and returns

Investments are made out of the capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under :

Sector	Number of concerns	(Rupees in crore)	
		Amount invested [#] as on 31.03.2000	during 1999-2000
(1) Government Companies	4 [€]	1.45	Nil
(2) Cooperative Institutions	423	9.53	1.24
Total	427	10.98	1.24

The details of investments and the returns realized during the last five years by way of dividend and interest were as follows:

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing (%)
	(Rupees in crore)			
1995-96	8.55	0.10	1.17	14
1996-97	8.86	0.07	0.79	13.75
1997-98	9.08	0.07	0.77	13.5
1998-99	9.74	0.14	1.44	12.15
1999-2000	10.98	Nil	0	12.25

Thus, while the Government was raising high cost borrowings from the market, its investments in Government companies, *etc.*, fetched no return during 1999-2000 and negligible returns from 1.17 *per cent* to 1.44 *per cent* during 1995-1999. Thus while the Government was borrowing at high rate of interest, its investment in Government companies/Co-operative Institutions *etc.*, fetched no return at all during 1999-2000.

1.9.2 Incomplete Projects

As of 31 March 2000 there were 17 incomplete projects in which Rs.123.46 crore were blocked. This showed that the Government was spreading its resources thinly, which failed to yield any return.

[#] Figures in Chapter VIII are provisional and are under reconciliation.

[€] Excludes Mizoram Agriculture and Marketing Development Corporation shown in Chapter VIII as there is no Capital Investment.

1.9.3 Arrears of revenue

The position of arrears of revenue pending collection during 1999-2000 was not made available by the Government.

1.9.4 Ways and means advances and overdraft

Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs.0.10 crore. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking Ways and Means Advances (WMA)/Overdraft (OD) from the Bank. In addition special ways and means advances are also made by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the Government, and hence reflects poorly on the financial management in Government.

The extent to which the Government maintained the minimum balance with the Bank during 1995-96 to 1999-2000 is given below:

	1995-96	1996-97	1997-98	1998-99	1999-2000
1. Number of days on which minimum balance was maintained					
(a) Without obtaining any advance	295	119	103	121	144
(b) By obtaining ways and means advance	29	134	102	118	165
2. Number of days on which overdraft was taken	42	112	157	126	57
3. Number of days on which there was shortfall from minimum balance after taking ways and means advances and no overdraft was taken	-	-	3	-	-

The position of ways and means advances/overdraft taken by the State Government and interest paid thereon during 1995-96 to 1999-2000 is detailed below:

	(Rupees in crore)				
	1995-96	1996-97	1997-98	1998-99	1999-2000
Ways and Means Advances					
i) Taken during the year	53.67	179.11	191.16	207.23	263.95
ii) Outstanding at the end of the year	8.40	16.80	14.45	25.00	16.89
iii) Interest paid	0.10	0.90	1.15	0.61	3.85
Overdraft					
i) Taken during the year	72.08	282.07	280.94	317.79	258.00
ii) Outstanding at the end of the year	18.99	121.76	4.52	57.98	9.25
iii) Interest paid	0.11	0.47	0.63	1.18	0.36

The position indicates poor cash management by the State Government leading to drawal of huge amount of Ways and Means Advances and Overdrafts and consequent payment of interest thereon. The annual interest liability has increased from Rs. 0.21 crore in 1995-96 to Rs. 4.21 crore in 1999-2000.

1.9.5 Deficit

1.9.5.1 Deficits in Government account represent gaps between the receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit *viz.*, Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.9.5.2 The Revenue Deficit is the excess expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit is fiscal deficit less interest payments. The following exhibit gives a break-up of the deficit in Government account.

(Rupees in crore)					
CONSOLIDATED FUND (CF)					
Receipt	Amount			Disbursement	Amount
Revenue	860.84	Revenue	31.08	Revenue	891.92
Misc.		deficit			
Capital receipts	-			Capital	149.73
Recovery of loans & advances	9.31			Loans & advances disbursement	42.34
Sub Total	870.15	Gross fiscal deficit	213.84	Sub Total	1083.99
Public debt*	341.97			Public debt repayment*	121.26
Total	1212.12	A: Surplus in CF:	6.87	Total	1205.25
PUBLIC ACCOUNT					
Small savings, PF etc.	59.30			Small savings, PF etc.	27.06
Deposits & advances	173.27			Deposits & advances	89.55
Reserve Funds	2.20			Reserve Funds	0.64
Suspense & Misc.	(-) 2.20			Suspense & Misc.	61.27
Remittances	292.57			Remittances	300.96
Total	525.14	B: Surplus in Public Account :	45.66	Total	479.48
Increase in cash balance (A+B) :			Rs.52.53		

* Includes overdraft obtained/repaid.

The table shows that there was revenue deficit (Rs.31.08 crore) and also fiscal deficit of Rs.213.84 crore as of 31 March 2000. This fiscal deficit was financed by net proceeds of public debt. The table below paragraph 1.4.3 shows that the fiscal deficit has shown increasing trend (except for the year 1998-99).

1.9.5.3 Application of the borrowed funds (Fiscal Deficit)

The fiscal deficit represents total net borrowing of the Government. These borrowings are applied for meeting the Revenue Deficit (RD)/Revenue Surplus (RS) for making the Capital Expenditure (CE) and for giving loans to various bodies for development and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowings for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of Mizoram for the last five years :

Ratio	1995-96	1996-97	1997-98	1998-99	1999-2000
RD/FD	(-) 0.63	(-) 0.27	(-) 0.12	(-) 0.79	0.15
CE/FD	1.53	1.18	1.02	1.47	0.70
Net loans/FD	0.10	0.09	0.10	0.32	0.15
Total	1.00	1.00	1.00	1.00	1.00

It would be seen that borrowed funds have been applied for meeting the revenue expenditure during 1999-2000, increasing the debt burden for maintaining its existing programmes instead of expanding its revenue base.

1.9.6 Guarantees given by the State Government

Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, *etc.*, raised by the statutory corporations, Government companies and cooperative institutions, *etc.*, and payment of interest and dividend by them. They constitute contingent liability of the State. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the State. The outstanding guarantee as on March 2000 was Rs.48.83 crore. Further information on guarantees given in each year and amount outstanding at the end of each year excepting 1999-2000 were not available from the Government.

1.10 Public debt

1.10.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any

such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table. During the five year period, the total liabilities of the Government had grown by 104 per cent. This was on account of 156 per cent growth in internal debt, 117 per cent growth in loans and advances from Government of India and 46 per cent growth in other liabilities.

(Rupees in crore)						
Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities	Total liabilities	Ratio of debt to GSDP
1995-96	133.95	238.29	372.24	173.38	545.62	0.58
1996-97	274.41	262.00	536.41	208.18	744.59	0.69
1997-98	186.51	293.27	479.78	299.93	779.71	0.69
1998-99	316.06	323.52	639.58	322.93	962.51	0.74
1999-2000	343.50	516.79	860.29	252.91	1113.20	0.76

1.10.2 The amount of funds raised through Public debt, the amount of repayment and net funds available are given in the following table:

(Rupees in crore)						
	1995-96	1996-97	1997-98	1998-99	1999-2000	
Internal Debt[#]						
- Receipt		158	496	512	600	613.80
- Repayment (Principal + Interest)		135	376	624	493	621.80
- Net funds available		23	120	(-) 112	107	(-) 8.00
(Per cent)		(15)	(24)		(18)	
Loans and advances from GOI						
- Receipt during the year		31	56	107	112	250.13
- Repayment (Principal + Interest)		19	49	95	109	84.37
- Net funds available		12	7	12	3	165.76
(Per cent)		(39)	(13)	(11)	(3)	(66)
Other liabilities[*]						
- Receipt during the year	96.49	120.52	179.45	144.32		225.48
- Repayment (Principal + Interest)	71.05	97.13	109.40	145.59		132.62
- Net funds available	25.44	23.39	70.05	(-) 1.27		92.86
(Per cent)	(26)	(19)	(39)	(-) 0.88		(41)

It would be seen that the entire internal debt received during 1999-2000 were consumed in repayment and very little of the total borrowings are available for investment after meeting the repayment obligations. Considering that the outstanding debt has been increasing year after year the net availability of funds through public borrowings is going to be reduced further.

[#] Included ways and means advances

^{*} Other liabilities include small savings and provident fund, reserve fund and deposit, etc.,

1.11 Indicators of the financial performance

1.11.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing. Finally, Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate to Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity, while plan expenditure entails expansion of activity. Both these activities require resource mobilization increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows :

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of Annual Financial Statement (Budget) and the Accounts. As regards the budget the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards accounts, timeliness in submission, for which milestones exist and completeness of accounts would be the principal criteria.

1.11.2 Information available in Finance Accounts can be used to flesh out Sustainability, Flexibility, and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in **Appendix – I Part-B**. Exhibit II indicates the behaviour of these indices/ratios over the period from 1995-96 to 1999-2000.

The implications of these indices/ratios for the state of the financial health of the State Government are discussed in the following paragraphs.

1.11.3 The behaviour of the indices/ratios is discussed below.

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting plan expenditure. The table shows that the State Government had a negative BCR in all the five years, suggesting that Government had to depend only on borrowings for meeting its plan expenditure.

(ii) Interest ratio

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of Mizoram the ratio has moved in narrow range of 0.05 to 0.11. A rising interest ratio has adverse implications on the sustainability since it points out to the rising interest burden.

(iii) Capital outlay/capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term in as much as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance. In the case of Mizoram the ratio shows declining trend from 1.32 in 1995-96 to 0.63 in 1999-2000. The ratio is less than one in 1998-99 and 1999-2000 indicating that capital receipts are being diverted partially and not available wholly for investment.

(iv) Tax receipts Vs Gross State Domestic Product (GSDP)

Tax receipts consist of State taxes and State's Share of Central taxes. The latter can also be viewed as Central taxes paid by people living in the State. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that Government can tax more, and hence to flexibility, a higher ratio may not only point to the limits of these source of finance but also its inflexibility. Time series analysis shows that in case of Mizoram while the ratio has been in the range of 0.12 and 0.23, the ratio of the State tax receipts compared to GSDP has been constant at 0.0001 during 1997-99 and increased to 0.007 in 1999-2000, but this ratio suggests that State Government had the option to raise more resources through taxation to generate more revenue.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table presents the return on Government's investments in statutory corporations, Government companies, joint stock companies and co-operative institutions. It shows that ROI in case of Government of Mizoram has been negligible varying between 0.008 and 0.014 during 1995-99 and reduced to zero during 1999-2000.

(vi) Capital repayments vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In case of Mizoram this ratio was below 1 in all the 5 years excepting 1997-98 (ratio 1.04) indicating availability of capital for investment.

(vii) Debt Vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State Government, which can be used to service debt. An increasing ratio of debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore, increasing risk for the lender. In the case of Mizoram the ratio has moved from 0.58 in 1995-96 to 0.89 in 1999-2000, showing reduction in the ability of Government to meet debt obligations.

(viii) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings, etc. Evidently, the higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings the revenue deficit as a percentage of fiscal deficit would indicate the extent of to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus higher the ratio the worse off the State because it would indicate that the deficit burden is increasing without adding to the repayment capacity of the State. During 1999-2000 the State had sustained revenue deficit for the first time out of last 5 years. The trend analysis showed that the ratio which ranged between (-) 0.79 and (-) 0.12 during 1995-1999 shot up to 0.15 indicating worsening financial sustainability.

(ix) Primary deficit vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. This means that the less the value of the ratio the less the availability of funds for capital investment. In case of Government of Mizoram, this ratio ranged between 0.25 and 0.65. This suggests that interest payment accounted for 35 to 75 per cent of the net borrowings, which are therefore not available for capital investment to large extent. In 1999-2000 the interest payments accounted for

44 *per cent* of the net borrowed funds. Evidently, this is not a sustainable position.

(x) ***Guarantees vs Revenue receipts***

Outstanding guarantees, including the letters of comfort issued by the Government, indicates the risk exposure of a State Government and should therefore be compared with the ability of the Government to pay *viz.*, its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. In the case of Mizoram, this ratio during 1999-2000 was 0.06. The position in respect of earlier 4 (four) years could not be ascertained as the State Government had not furnished details for these years as already indicated in paragraph 1.9.6.

(xi) ***Assets vs Liabilities***

This ratio indicates the solvency of the Government. A ratio of more than 1 would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than 1 would be a contra indicator. This ratio although has all along been more than 1, has been declining from 1.75 (1995-96) to 1.40 (1999-2000).

(xii) ***Budget***

There was no delay in submission of the budget and their approval.

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by persistent resumption (surrenders) of significant amounts every year *vis-à-vis* the final modified grant. Significant variations (excess/savings) between the final modified grant and actual expenditure were also persistent.

1.11.4 Conclusions

The ratio of primary deficit to fiscal deficit shows that interest payments have been substantial and have also increased as proportion of revenue receipts, as shown by the rising trend of the interest ratio. A negative BCR, declining capital outlay to capital receipt ratio and ROI have adverse implications for sustainability.

EXHIBIT – I
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 1999-2000

(Rupees in crore)

1998-99	Receipts	1999-2000	1998-99	Disbursements	1999-2000
	Section – A: Revenue				
773.08	I. Revenue receipts	860.84	695.05	I. Revenue expenditure	891.92*
9.20	Tax Revenue	10.73	224.83	General Services-	294.07
36.18	Non Tax Revenue	41.35		Social Services-	336.29
-	State's Share of net proceeds of Taxes on income other than corporations	-	115.25	-Education, Sports, Art and Culture	160.19
316.98	State's Share of Union Taxes and Duties	325.04	42.33	-Health and Family Welfare	53.69
			46.75	-Water Supply, Sanitation, Housing & Urban Development	47.76
32.16	Non-Plan grants	18.73	2.20	-Information and Broadcasting	3.09
300.68	Grants for State Plan Scheme	375.72	33.12	-Welfare of Scheduled Castes, Scheduled tribes and Other Backward Classes	40.98
77.85	Grants for Central and Centrally Sponsored Plan Schemes	77.02	1.46	-Labour and Labour Welfare	1.83
0.03	Grants for Special Plan Schemes	12.25	16.17	-Social Welfare and Nutrition	26.47
			1.79	-Others	2.28
				Economic Services-	261.56
			73.45	-Agriculture and Allied Activities	93.42
			29.14	-Rural Development	36.07
			8.63	-Special Areas programmes	8.09
			1.92	-Irrigation and Flood Control	3.88
			42.18	-Energy	44.53
			14.57	-Industry and Minerals	22.98
			29.96	-Transport	35.02
			0.49	-Science, Technology and Environment	0.94
			10.81	-General Economic Services	16.63
	II. Revenue deficit carried over to Section B	31.08	78.03	II. Revenue surplus carried over to Section B	-
773.08	Total :	891.92	773.08	Total :	891.92*
	Section - B				
(-185.71)	III. Opening Cash balance including Permanent Advances and Cash Balance investment	(-) 189.64			
	IV. Miscellaneous Capital receipts	---	145.74	III. Capital Outlay	149.73*
				General Services-	8.01
				Social Services-	36.92
				-Education, Sports, Art and Culture	0.94
				-Health and Family Welfare	5.22
				-Water Supply, Sanitation	26.57
				-Housing and Urban Development	4.05
				-Welfare of Scheduled Castes Scheduled tribes and Other Backward Classes	
				-Social Welfare and Nutrition	-
				-Others	-
				-Information and Broadcasting	0.14

* Revenue and Capital expenditure under Plan and Non-Plan during 1999-2000 is given in **Appendix I-A**.

(Rupees in crore)

1998-99	Receipts	1999-2000	1998-99	Disbursements	1999-2000
				Economic Services-	104.80
				-Agriculture and Allied Activities	(-) 4.86
				-Rural Development	1.98
				-Special Areas Programmes	12.33
				-Irrigation & Flood Control	6.62
				-Energy	40.05
				-Industry and Minerals	1.59
				-Tourism	0.01
				-Transport	47.08
7.18	V. Recoveries of Loans and Advances	9.31	38.28	IV. Loans and Advances disbursed	42.34
2.13	-From Housing	3.60	28.56	-For Housing	40.98
4.74	-From Government Servants	5.31	8.16	-To Government Servants	0.10
0.31	-From Others	0.40	1.56	-To Others	1.26
78.03	VI. Revenue surplus brought down		-	V. Revenue deficit brought down	31.08
250.80	VII. Public Debt Receipts	341.97	91.00	VI. Repayment of Public Debt	121.26
-	-External debt	-		-External debt	-
75.09	-Internal debt other than Ways and Means Advances & Overdraft	91.84	9.55	-Internal debt other than Ways & Means Advances & Overdraft	7.56
64.01	-Net transaction under Ways and Means Advances including Overdraft	----		-Net transaction under Ways and Means Advances including Overdraft	56.84 [£]
111.70	-Loans and Advances from Central Government	250.13	81.45	-Repayment of Loans and Advances to Central Government	56.86
---	VIII. Appropriation to Contingency Fund		---	VII. Appropriation to Contingency Fund	---
---	IX. Amount transferred to Contingency Fund		---	VIII. Expenditure from Contingency Fund	---
494.40	X. Public Account receipts	525.14	559.32	IX. Public Accounts disbursements	479.48
61.91	-Small Savings and Provident Fund	59.30		-Small Savings and Provident Fund	27.06
2.03	Reserve Funds	2.20		-Reserve Funds	0.64
78.27	-Suspense and Miscellaneous	(-) 2.20		-Suspense and Miscellaneous	61.27
262.50	-Remittance	292.57		-Remittance	300.96
89.69	-Deposits and Advances	173.27		-Deposits and Advances	89.55
			(-) 189.64	X. Cash Balance at end of 31 March 2000	(-) 137.11
				-Cash in Treasuries and Local Remittances	---
				-Deposits with Reserve Bank	(-) 137.75
				-Departmental Cash Balance including Permanent Advances	0.64
				-Cash Balance Investment	---
644.70	Total :	686.78	644.70	Total :	686.78

[£] Represents receipts Rs. 521.96 crore and disbursement Rs. 578.80 crore

Explanatory Notes

1. The abridged accounts in the foregoing statement have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the surplus on Government account, as shown in the table in Paragraph 1.2 indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation in stock figure, *etc.*, do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payment made on behalf of the State and other pending settlement, *etc.*
4. There was a difference of Rs.7.63 crore (net credit) between the figure reflected in the accounts (Rs. (-)12.36 crore) and that intimated by the RBI (Rs. (-)19.99 crore) under “Deposit with Reserve Bank”. While difference of Rs.5.22 crore had been reconciled (April 2000) the remaining difference of Rs.2.41 crores was yet to be reconciled (October 2000).

EXHIBIT – II

FINANCIAL INDICATORS FOR GOVERNMENT OF MIZORAM

	1995-96	1996-97	1997-98	1998-99	1999-2000
Sustainability					
BCR (Rupees in lakh)	(-) 46.92	(-) 68.82	(-)126.83	(-) 88.63	(-) 191.77
Primary Deficit (PD) (Rupees in crore)	53	88	97	25	120.12
Interest Ratio	0.05	0.07	0.10	0.10	0.11
Capital outlay/Capital receipts	1.32	1.40	1.27	0.77	0.63
Total tax receipts/GSDP	0.12	0.16	0.18	0.23	0.21
State Tax Receipts/ GSDP	0.09	0.001	0.0001	0.0001	0.007
Return on Investment ratio	0.012	0.008	0.008	0.014	--
Flexibility					
BCR (Rupees in crore)	(-) 46.92	(-) 68.82	(-) 126.83	(-) 88.63	(-) 191.77
Capital repayments/ Capital borrowings	0.23	0.56	1.04	0.77	0.26
State Tax receipts/GSDP	0.09	0.0001	0.0001	0.0001	0.007
Debt/GSDP	0.58	0.69	0.69	0.74	0.89
Vulnerability					
Revenue Surplus (RS)/ Revenue Deficit (RD) (-) (Rupees in crore)	54.56	36.76	19.22	78.03	(-) 31.08
Fiscal Deficit (FD) (Rupees in crore)	87.25	135.50	162.58	98.81	213.84
Primary Deficit (PD) (Rupees in crore)	53	88	97	25	120
PD/FD	0.60	0.65	0.60	0.25	0.56
RD or RS/FD	(-) 0.63	(-) 0.27	(-) 0.12	(-) 0.79	0.15
Outstanding Guarantees/ revenue receipts	NA	NA	NA	NA	0.06
Assets/Liabilities	1.75	1.60	1.57	1.57	1.40

- Note:**
1. Fiscal deficit has been calculated as : Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts - Non-loan capital receipts.
 2. In the ratio Capital outlay vs. capital receipts, the denominator has been taken as internal loans + Loans and Advances from Government of India + Net receipts from small savings, PF, etc., + Repayments received from loans advanced by the State Government – Loans advanced by State Government.