Chapter 1

Finances of the State Government

This chapter provides a broad perspective of the finances of the Government of Rajasthan during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure of Government Accounts and the layout of Finance Accounts are shown in Box 1.1 (page 2).

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of State Government's fiscal transactions during the current year (2008-09) vis-à-vis the previous year while *Appendix 1.3* provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1: Summary of fiscal operations

(Rupees in crore)

Receipts			Disbursements				
	2007-08	2008-09		2007-08	2008-09		
Section A	**Total**	**Total**	**Section A**	**Total**	**Non-Plan**	**Plan**	**Total**
Revenue Receipts	**30,780.62**	**33,468.85**	**Revenue expenditure**	**29,127.64**	**28,524.99**	**5,770.61**	**34,295.60**
Tax Revenue	13,274.73	14,943.50	General services	10,922.27	12,840.06	109.83	12,949.89
Non-tax Revenue	4,053.93	3,888.46	Social services	10,200.02	11,375.92	2,676.95	14,052.87
Share of Union Taxes/ Duties	8,527.60	8,998.72	Economic services	7,988.80	4,282.89	2,983.83	7,266.72
Grants from Government of India	4,924.36	5,638.17	Grants-in-aid and Contributions	16.55	26.12	-	26.12
Section B			**Section B**				
Miscellaneous Capital Receipts	**1.16**	**4.21**	**Capital Outlay**	**6,555.55**	**(-) 195.85**[1]	**6,095.80**	**5,899.95**
Recoveries of Loans and Advances	**1,780.73**	**89.23**	**Loans and Advances disbursed**	**287.69**	**16.36**	**323.70**	**340.06**
Public Debt Receipts[2]	**5,063.34**	**7,477.87**	**Repayment of Public Debt**[2]	**1,845.81**	**-**	**-**	**2,432.64**
Contingency Fund	**-**	**165.00**	**Contingency Fund**	**-**	**-**	**-**	**165.00**
Public Account Receipts	**77,596.56**	**93,579.84**	**Public Account disbursements**	**74,734.69**	**-**	**-**	**91,779.22**
Opening Cash Balance	***2,622.36***	***5,293.39***	**Closing Cash Balance**	***5,293.39***	**-**	**-**	***5,165.92***
Total	**1,17,844.77**	**1,40,078.39**	**Total**	**1,17,844.77**	**-**	**-**	**1,40,078.39**

[1] Minus figure is due to transfer of Rs 212 crore from Rajasthan State Investment Fund (see page 3).

[2] Excluding net transactions under ways and means advances and overdraft

Box 1.1

Structure of Government Accounts

The accounts of the State Government are kept in three parts: (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

Part I: Consolidated Fund : All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266 (1) of the Constitution of India.

Part II: Contingency Fund: 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 the 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.

Part III: Public Account: Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature.

Layout of Finance Accounts

Statement No.	About
1.	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.
2.	Summarized statement of capital outlay showing progressive expenditure to the end of 2008-09.
3.	Financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.
4.	Summary of debt position of the State which includes borrowing from internal debt, Government of India, other obligations and servicing of debt.
5.	Summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears etc.
6.	Summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.
7.	Summary of cash balances and investments made out of such balances.
8.	Summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2009.
9.	Revenue and expenditure under different heads for the year 2008-09 as a percentage of total revenue/ expenditure.
10.	Distribution between the charged and voted expenditure incurred during the year.
11.	Detailed account of revenue receipts by minor heads.
12.	Accounts of revenue expenditure by minor heads under non–plan and plan separately and capital expenditure by major head wise.
13.	Detailed capital expenditure incurred during and to the end of 2008-09.
14.	Shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies etc up to the end of 2008-09.
15.	Capital and other expenditure to the end of 2008-09 and the principal sources from which the funds were provided for that expenditure.
16.	Detailed account of receipts disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.
17.	Detailed account of debt & other interest bearing obligations of the State Government.
18.	Detailed account of loans and advances given by the Government of Rajasthan, the amount of loan repaid during the year, the balance as on 31 March 2009.
19.	Details of earmarked balances of reserve funds.

Following are the significant changes during 2008-09 over the previous year:

- Revenue receipts grew by Rs 2,688 crore (nine per cent) over the previous year. The increase was mainly contributed by tax revenue (Rs 1,668 crore), State's share of Union taxes and duties (Rs 471 crore) and grants-in-aid from Government of India (Rs 714 crore) partly offset by a decline of Rs 165 crore in Non-tax revenue. ***The revenue receipts at Rs 33,469 crore were higher than the assessment made by the State Government in its Fiscal Correction Path (FCP) (Rs 28,682 crore) and Medium Term Fiscal Policy Statement (MTFPS) (Rs 32,986 crore) for the year 2008-09.*** The fiscal targets of the FRBM Act, 2005 of the State and outcome indicators of the States own FCP are at *Box 1.2* (page 4) and *Appendix 1.1.*

- Revenue expenditure increased by Rs 5,168 crore over the previous year. The increase was mainly under General Education (Rs 2,213 crore), Pensions and Other Retirement Benefits (Rs 758 crore), Medical and Public Health (Rs 504 crore), Police (Rs 478 crore), Water Supply and Sanitation (Rs 361 crore), Other Rural Development Programmes (Rs 315 crore), Rural Employment (Rs 311 crore), Interest Payments (Rs 281 crore), Roads and Bridges (Rs 218 crore), Urban Development (Rs 167 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (Rs 136 crore), Crop Husbandry (Rs 134 crore), Forestry and Wild Life (Rs 111 crore), Nutrition (Rs 111 crore) and Relief on account of Natural Calamities (Rs 110 crore) partly offset by a decline of Rs 1,681 crore in Power. ***The revenue expenditure exceeded the assessment made by the State Government both in its FCP and MTFPS for the year 2008-09 by Rs 5,614 crore and Rs 2,493 crore respectively.***

- Capital expenditure decreased by Rs 655 crore over the previous year. The decrease was mainly under Rajasthan State Investment Fund (Rs 1,112 crore) partly offset by increase in Rural Water Supply (Rs 173 crore) and Power Projects (Rs 273 crore). During 2007-08, the State Government had transferred Rs 900 crore from the Consolidated Fund of the State (Capital outlay on Other Fiscal Services) to Rajasthan State Investment Fund (Public Account of the State), whereas during 2008-09 the State Government transferred Rs 212 crore from the Rajasthan State Investment Fund to Consolidated Fund of the State (Capital outlay on Other Fiscal Services) to meet the liabilities arising due to Sixth Pay Commission. ***During 2008-09 no expenditure was incurred under the Head Capital outlay on Other Fiscal Services.***

- The recovery of loans and advances decreased by Rs 1,692 crore over the previous year. The main reason for this was that Rs 1,666 crore of outstanding loan against erstwhile Rajasthan State Electricity Board (RSEB) was shown as recovery of loan and then converted into subsidy by State Government in 2007-08, thus inflating the figures of recovery of loans and advances in that year.

- Public Debt receipts increased by Rs 2,415 crore and repayment of Public Debt increased by Rs 587 crore over the previous year. ***Thus, net receipts increased during the year by Rs 1,828 crore.***

- Public Account receipts and disbursements increased by Rs 15,984 crore and Rs 17,044 crore respectively over the previous year. ***Thus, net receipt decreased during the year by Rs 1,060 crore.***

- Cash balance of the State decreased by Rs 127 crore over the previous year.

Box 1.2

Fiscal Responsibility and Budget Management (FRBM) Act, 2005

The State Government has enacted the Rajasthan Fiscal Responsibility and Budget Management (FRBM) Act, 2005 to ensure prudence in fiscal management and to maintain fiscal stability in the State. To improve the fiscal position and to bring fiscal stability, the Act envisages progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability. To ensure fiscal prudence the Act also provides for greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and matters connected therewith or thereto. To give effect to the fiscal management principles as laid down in the Act, and/or the rules framed thereunder prescribed the following fiscal targets for the State Government:

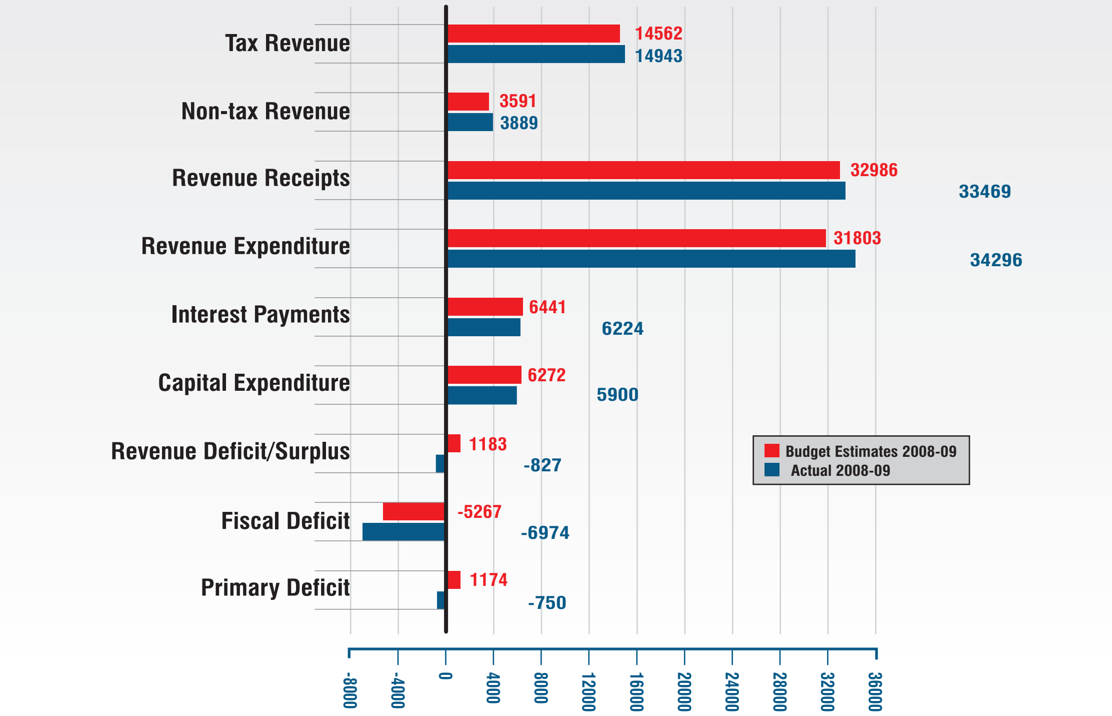
- reduce revenue deficit to zero within a period of four financial years beginning 1st day of April 2005 and ending on the 31st day of March 2009 by following a path of average annual reduction of three per cent in the ratio of revenue deficit to revenue receipts;
- reduce fiscal deficit to three per cent of the estimated GSDP by following a path of minimum average annual reduction of 0.4 per cent in the ratio of fiscal deficit to GSDP; (Considering the overall slowdown in the economy, the GoI had allowed the States to increase their fiscal deficit to as much as to 3.5 per cent of their GSDP).
- ensure that total outstanding debt, excluding public account and risk weighted outstanding guarantees in a year shall not exceed twice the estimated receipts in the Consolidated Fund of the State at the close of the financial year;
- require to bring out annual statement giving prospects for the State economy and related fiscal strategy.

The State Government has developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 keeping in view the fiscal targets laid down in the FRBM Act and/or the rules made thereunder.

Outcome indicators of the State's FCP are at ***Appendix 1.1.***

The actual revenue receipts during the year increased by 1.46 per cent over the budget estimates while actual revenue expenditure increased by 7.84 per cent. Resultantly, the estimated revenue surplus turned into revenue deficit. The capital expenditure and interest payments decreased by 5.93 per cent and 3.37 per cent respectively over the budget estimates. The budgeted and actual figures under revenue receipts and expenditure are given in *Chart 1.1* and *Appendix-1.5.*

Chart 1.1 Selected Fiscal Parameters: Budget Estimates vis-a-vis Actuals (Rupees in Crore)



As may be observed from Chart 1.1 (also see *Appendix 1.5*) there was considerable variation between budget estimates and actuals in the case of several key parameters. ***Despite the year of general economic slowdown, it was heartening to note that revenue receipts actually had a marginal positive variation over budget estimates, mainly due to better than expected performance in Sales Tax, State Excise, Taxes on Immovable property and interest receipts.*** Revenue expenditure showed a considerable positive variation of 7.84 per cent over budget estimate and almost all categories of revenue expenditure (with the exception of interest payments, other Rural Development Programme and Power) exceeded budget estimates. As a result, the targeted revenue surplus of Rs 1,183 crore was not achieved. Instead, a revenue deficit of Rs 827 crore was observed. Similarly, the estimated fiscal deficit[3] widened from the budget estimate of Rs 5,627 crore to the actual figure of Rs 6,974 crore. The estimated primary surplus could not be achieved and there was a primary deficit instead. Asset creation was not given as much priority as intended in the budget estimates as seen from a 5.93 per cent shortfall in Capital expenditure over the budget estimates.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the State Government's resource base. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals from Public Account. Table 1.1 presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while Chart 1.2 depicts the trends in various components of the receipts of the State during 2003-09. Chart 1.3 depicts the composition of resources of the State during the current year.

Chart 1.2 Trends in receipts
(Rupees in Crore)

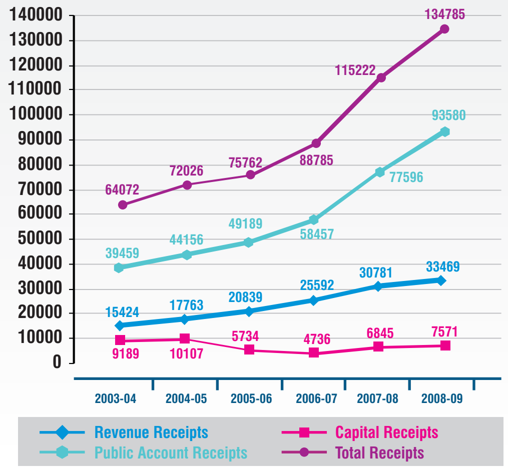
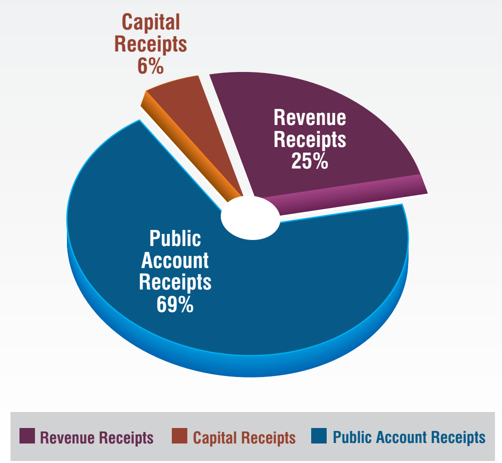


Chart 1.3 Composition of Receipts during 2008-09
(Rupees in Crore)



Note: Contingency Fund Receipts were only Rs 165 crore and 0.12 per cent of total receipt during 2008-09

[3] See glossary at page 85

Chart 1.2 shows that the total receipts of the State Government for the year 2008-09 were Rs 1,34,785 crore. Of these, the revenue receipts were Rs 33,469 crore, constituting 25 per cent of the total receipts. The balance came from capital receipts, borrowings and Public Account receipts. During 2004-05 to 2008-09 the average revenue receipts were Rs 25,689 crore, constituting 26 per cent of the average total receipts (Rs 97,316 crore).

The total receipts of the State increased by 110 per cent from Rs 64,072 crore in 2003-04 to Rs 1,34,785 crore in 2008-09. Public Debt receipts (Rs 7,478 crore) constitute nearly 99 per cent of the Capital receipts. Major share of the Public Debt (Rs 7,152 crore: 96 per cent) was from Internal Debt.

Deposits and Advances (Rs 81,808 crore) constitute about 87 per cent of the total receipts under Public Account. Major share of the Deposits and Advances (Rs 64,377 crore: 79 per cent) were in the form of working funds of five companies formed after the dismantling of RSEB and channelized through the 'Minor Head 107– State Electricity Boards Working Funds'. Similarly, 87 per cent (Rs 5,732 crore) of the remittances have come from Public Works Remittances.

1.2.2 Funds transferred to State implementing agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State implementing agencies[4] for the implementation of various schemes/programmes in social and economic sectors recognized as critical for the development of Rajasthan. As these funds are not routed through the State budget/State treasury system, annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present a holistic picture on availability of aggregate resources, all the implementing agencies/departments were requested to furnish the details of funds received by them directly from GoI. The information obtained is presented in Table 1.2. It was observed that the funds transferred directly to State implementing agencies (Central Share) increased by 123 per cent during the current year (Rs 10,704.40 crore) over previous year (Rs 4,803.85 crore). The increase was mainly under National Rural Employment Guarantee Scheme (NREGS): Rs 5,466.40 crore, National Rural Health Mission: Rs 147.88 crore, Pradhan Mantri Gram Sadak Yojana: Rs 129.75 crore and Desert Development Programme (Comb): Rs 113.67 crore.

Table 1.2: Funds transferred by GoI directly to State implementing agencies

(Rupees in crore)

Programme/ Scheme (Centre: State Share)	Implementing Agency/ Department in the State	2007-08	2008-09
Members of Parliament Local Area Development Scheme (MPLAD) (100 *per cent*)	District Rural Development Agency (DRDA)	77.00	63.00
National Rural Employment Guarantee Scheme (NREGS) (90:10)	DRDA	1,061.00	6,527.40
Indira Awas Yojana (IAY) (75:25)	DRDA	88.89	126.35
Swarnjayanti Gram Swarojgar Yojana (SGSY) (75:25)	DRDA	50.73	60.88
Desert Development Programme (DDP) (75:25)	DRDA	94.31	99.34
DDP (Comb.)	DRDA	3.86	117.53
Drought Prone Area Programme (75:25)	DRDA	13.96	18.17
Integrated Wasteland Development Programme (91.67: 8.33)	DRDA	47.32	45.27
DRDA (ADM) (75:25)	DRDA	14.29	16.51
Border Area Development Programme (BADP) (100 per cent)	DRDA	76.59	88.49
Sampoorna Gramin Rojgar Yojana (SGRY) (75:25)	DRDA	117.08	–
Sarva Shiksha Abhiyan (SSA) (65:35)	Education Department	933.04	1,021.73

[4] State implementing agency may be any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the GoI for implementing specific programmes in the State, e.g. DRDA for NREGS and Rajasthan State Health Society Mission for National Rural Health Mission etc.

(Rupees in crore)

Programme/ Scheme (Centre: State Share)	Implementing Agency/ Department in the State	2007-08	2008-09
National Rural Health Mission (NRHM) (85:15)	Rajasthan State Health Society	456.11	603.99
Pradhan Mantri Gram Sarak Yojana (PMGSY) (100 percent)	Transport Department	1,641.57	1,771.32
National Food Security Mission (100 per cent)	Agriculture Department	23.59	39.33
Agriculture Technology Management Agency Projects (ATMAP) (90:10)	Agriculture Department	11.53	5.75
National Horticulture Mission (NHM) (85:15)	Horticulture Department	56.73	40.98
Micro Irrigation Scheme (MIS) (80:20)	Horticulture Department	23.41	23.59
National Bamboo Mission (NBM) (100 percent)	Horticulture Department	0.93	2.70
Adult Education (50:50)	Education Department	11.91	30.57
Regional Science Center (50:50)	Science and Technology Department	–	1.50
Total		**4,803.85**	**10,704.40**

The GoI directly transferred Rs 10,704 crore to State implementing agencies during 2008-09. Out of Rs 7,163 crore (67 per cent) transferred to the DRDAs, Rs 6,527 crore was for National Rural Employment Guarantee Scheme only. *Direct transfers from the GoI to the State implementing agencies run the risk of poor oversight. Unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.*

1.3 Revenue Receipts

The revenue receipts consist of State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2004-09 are presented in *Appendix 1.2* and also depicted in **Charts 1.4** and **1.5** respectively.

Chart 1.4 Trends in Revenue Receipts
(Rupees in Crore)

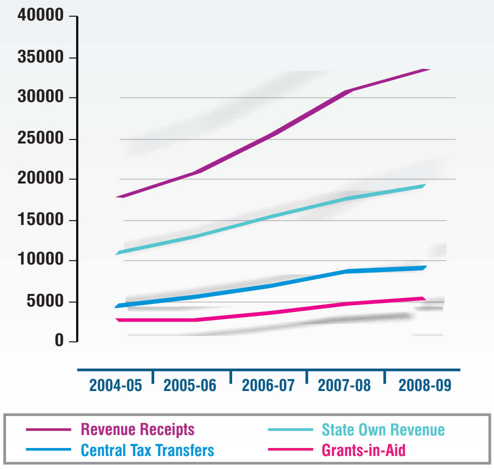
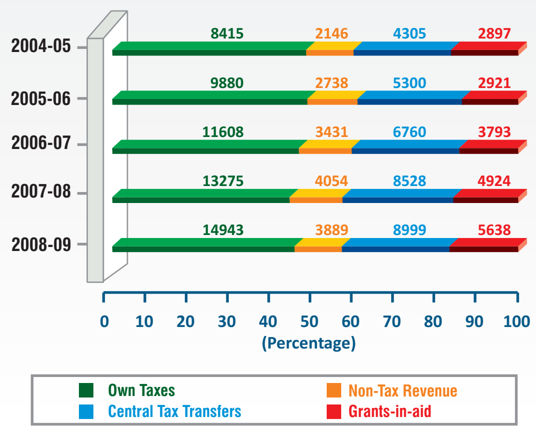


Chart 1.5 The Composition of Revenue Receipts during 2004 -09
(Rupees in Crore)



The revenue receipts have shown a progressive increase over the period 2004-09 with only marginal changes in its composition i.e. the share of own taxes, non-tax revenue and Central transfers in revenue exhibited relative stability during the period 2004-09 with marginal inter-year variations.

The trends in revenue receipts relative to Gross State Domestic Product (GSDP) are as follows:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	**17,763**	**20,839**	**25,592**	**30,781**	**33,469**
Rate of growth[5] of RR (per cent)	15.2	17.3	22.8	20.3	8.7
RR/GSDP (per cent)	15.1	16.2	17.2	18.1	17.4
Buoyancy Ratios[6]					
Revenue Buoyancy w.r.t GSDP	3.0	1.8	1.5	1.4	0.7
State's Own Tax Buoyancy w.r.t GSDP	3.2	1.8	1.1	1.0	1.0
Revenue Buoyancy with reference to State's own taxes	0.9	1.0	1.3	1.4	0.7

Source of GSDP: Directorate of Economic and Statistics, Government of Rajasthan.

The increase of nine per cent in revenue receipts during 2008-09 was on account of increase in State's own taxes (12.6 *per cent*), Central tax transfers (5.5 *per cent*) and Grant-in-aid (14.5 *per cent*) which was counterbalanced by decrease in non-tax revenue (4.1 *per cent*).

The Central tax transfers increased by Rs 471 crore over the previous year and constituted 26 per cent of revenue receipts. The increase was mainly under Corporation Tax (Rs 244 crore), Customs (Rs 108 crore) and Service Tax (Rs 121 crore).

The Grants-in-aid from GoI increased (Rs 714 crore) from Rs 4,924 crore in 2007-08 to Rs 5,638 crore in 2008-09. The increase was under Grants for State/Union Territory Plan Schemes (Rs 309 crore), Non-Plan Grants (Rs 221 crore) and Grants for Centrally Sponsored Plan Schemes (Rs 184 crore). The Grant for State Plan Schemes increased mainly due to more receipt of Block Grant (Rs 313 crore) and Grant to Centrally Sponsored Schemes increased mainly due to more receipt of grants for Rural Water Supply Schemes Programmes (Rs 93 crore) and Welfare of Scheduled Castes for Education (Rs 89 crore). As per the recommendations of Twelfth Finance Commission (TFC), the GoI released Rs 228.44 crore during the current year under Non-Plan for specific purposes viz. roads and bridges (Rs 79.165 crore against Rs 158.33 crore recommended by TFC), maintenance of buildings (Rs 53.27 crore), education (Rs 10 crore against Rs 20 crore recommended by TFC), historical monuments maintenance (Rs 12.50 crore), maintenance of Forests (Rs 5 crore) and Indira Gandhi Nahar Project (Rs 68.50 crore).

Thus, the State Government was put to a revenue loss of Rs 89.165 crore (Roads and bridges Rs 79.165 crore and Education Rs 10 crore) due to non- release of second installment from GoI on account of non-fulfillment of TFC conditions[7] after release of the first installment by State Government.

[5] See glossary at page 85

[6] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, for 2008-09, revenue buoyancy at 0.7 implies that revenue receipts tend to increase by 0.7 percentage points, if the GSDP increases by one per cent. (also see glossary at page 85)

[7] For release of the second installment the conditions were (a) 2008-09 BE under NPRE of the relevant head should not be less than the projected "total NPRE" for 2008-09 and (b) 2006-07 (Actuals) under NPRE of the relevant head should not be less than the total of projected "normal expenditure" for 2006-07 plus the actual release of "grant" for 2006-07.

1.3.1 State's Own Resources

The gross collection in respect of major taxes and duties as well as the components of non-tax receipts, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2004-05 to 2008-09 are presented in *Appendix 1.2.*

The tax revenue increased by 12.6 *per cent* during the current year (Rs 14,943 crore) over the previous year (Rs 13,275 crore). The revenue through Sales Tax not only contributed a major share of tax revenue (60 *per cent*) but also increased by 15 *per cent* over the previous year. The State Excise, Stamps and Registration Fees and Taxes on Vehicles remained other major contributors in the State's tax revenue. The State excise increased by Rs 365 crore over the previous year mainly due to more receipt from sale of foreign liquor and spirits while the Stamps and Registration Fees decreased by Rs 187 crore over the previous year mainly due to decrease in duty on impressing of documents.

The non-tax revenue which constituted 11.6 *per cent* of total revenue receipts decreased by Rs 165 crore during 2008-09 recording a negative growth rate of 4.1 *per cent* over previous year. The decrease was mainly under Sinking Fund by Rs 350 crore[8]. This was partly offset by an increase of Rs 84 crore in interest receipts due to book adjustment from Departmentally delivered Irrigation Projects and interest received on investment on cash balances, Rs 31 crore in Dividends and Profit due to more dividend from Rajasthan State Mines and Minerals Limited and Rajasthan State Industrial Development and Investment Corporation Limited, Jaipur and Rs 49 crore in Non-ferrous Mining and Metallurgical Industries.

The State's Own Resources (Rs 18,832 crore) constituted 46 *per cent* of the total receipts (Rs 41,040 crore) under Consolidated Fund of the State.

The actual receipts under State's tax and non-tax revenue vis-à-vis assessment made by the TFC and the State Government in FCP and MTFPS are as follows:

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in		Actual
		FCP	MTFPS	
State's Tax Revenue	14,621	14,146	14,562	14,943
State's Own Non-Tax Revenue	2,482	2,932	3,591	3,889

The tax revenue as well as the non-tax revenue receipts in 2008-09 exceeded normative assessments made by TFC by 2.2 per cent and by 56.7 per cent respectively. Actual realization also exceeded the assessments made by the State Government in its FCP as well as MTFPS for 2008-09.

1.3.2 Loss of revenue due to evasion of taxes, write off/waivers and refunds

The information about evasion of taxes/duties; written off or waivers and refunds as reported by the sales tax/excise and/or other revenue departments during the current year are indicated below:

Evasion of tax

According to information furnished by the Government departments, 33,040 cases of evasion of taxes were detected and 12,692 were pending investigation/ assessment as on 31 March 2009 under Non-ferrous mining and metallurgical industries (7,637 cases), Stamp duty and registration fees (4,927 cases) and Taxes on sales, trade etc. (128 cases). *Steps need to be taken to dispose of these cases expeditiously. Due to non-finalisation of these cases, Government was deprived of the revenue receipt involved in these cases.*

[8] During 2007-08, as per order of the Governor of Rajasthan, the State Government had wound up the Sinking Fund and transferred the amount of Rs 350 crore under Public Account to Consolidated Fund of the State as receipts from Miscellaneous General Services.

Write off and waiver of revenue

In 2008-09, demands for Rs 6.07 crore in 801 cases were written off/waived/remitted as reported by the Department of Commercial taxes (Rs 1.58 crore in 440 cases) and Department of Registration and Stamps (Rs 4.49 crore in 361 cases). *Thus, due to lack of timely action for recovery, demands had to be written off/waived resulting in loss of revenue.*

Refunds

According to information received from various departments, 1,248 refunds involving Rs 28.25 crore were pending as of 31 March 2009. The refunds of Rs 26.74 crore (94.7 *per cent*) in 587 cases pertained to the Commercial Taxes Department. Delay in utilisation of refunds would lead to extra financial burden of interest.

1.3.3 Revenue Arrears

Information regarding arrears of revenue was called for from the concerned departments. The revenue arrears as on 31 March 2009 in respect of some principal heads of revenue amounted to Rs 4752 crore of which Rs 1022 crore were outstanding for more than five years. The arrears increased by 60 *per cent* from Rs 2,978 crore in 2004-05 to Rs 4,752 crore at the end of 2008-09. The increase was Rs 728 crore during 2008-09 over the previous year. The outstanding arrears of revenue as mentioned in Table 1.4:

Table 1.4: Arrears of Revenue

(Rupees in crore)

Heads of Revenue	Outstanding arrears of revenue as on 31 March 2009			Remarks
	Up to five years	More than five years	Total	
Taxes on sales, trade etc.	3,002.49	680.64	3,683.13	Rs 302.12 crore were stayed by the Judicial authorities.
State excise	27.89	194.28	222.17	Rs 88.92 crore were stayed by the High Court/ Judicial authorities.
Taxes on vehicles	26.68	16.29	42.97	Rs 1.90 crore were stayed by the Court/Government.
Taxes on passenger and goods	-	1.90	1.90	Stage at which the recovery was pending was not intimated by the Transport Department.
Stamp duty and registration fee	87.84	29.81	117.65	Rs 51.31 crore were stayed by the High Court and other Judicial authorities.
Land revenue	70.77	12.97	83.74	Rs 3.28 crore were stayed by the Government and Rs 22.39 crore stayed by the High Court and other Judicial authorities.
Non-ferrous mining and metallurgical industries	65.25	37.92	103.17	Rs 60.32 crore were stayed by the High Court and other Judicial authorities and recovery of Rs 1.43 crore was stayed by the Government.
Miscellaneous general services- sale of land	90.55	30.08	120.63	Stage at which the recovery was pending was not intimated by the Colonisation Department.
Major and medium irrigation[9]	63.43	16.56	79.99	–
Police	15.90	1.61	17.51	–
Taxes on immovable property other than agriculture land	278.97	Nil	278.97	Rs 101.47 crore were stayed by High Court and other Judicial authorities.
Total	**3,729.77**	**1,022.06**	**4,751.83**	

[9] This information pertains to Board of Revenue, Rajasthan, Ajmer (Rs 4.66 crore), Chief Engineer Indira Gandhi Nahar Project, Bikaner (Rs 7.72 crore), Commissioner CAD, Chambal, Kota (Rs 13.63 crore), Chief Engineer, Irrigation Department, Jaipur (Rs 31.38 crore) and Chief Engineer, Mahi Bajaj Sagar, Banswara (Rs 22.60 crore).

Thus, 77.5 per cent of the total outstanding arrears of revenue as on 31 March 2009 were under the revenue head "Taxes on sales, trade etc". Out of Rs 4,752 crore, demands for only Rs 633 crore were stayed by the High court/Judicial authorities/ Government. *If the remaining arrear of revenue were collected by the State Government during the year the revenue and primary deficit[10] would have turned into surplus.*

1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore important to ensure that the ongoing fiscal correction and consolidation process[11] at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and Composition of Expenditure

The total expenditure and its compositions during the year 2004-05 to 2008-09 are presented here:

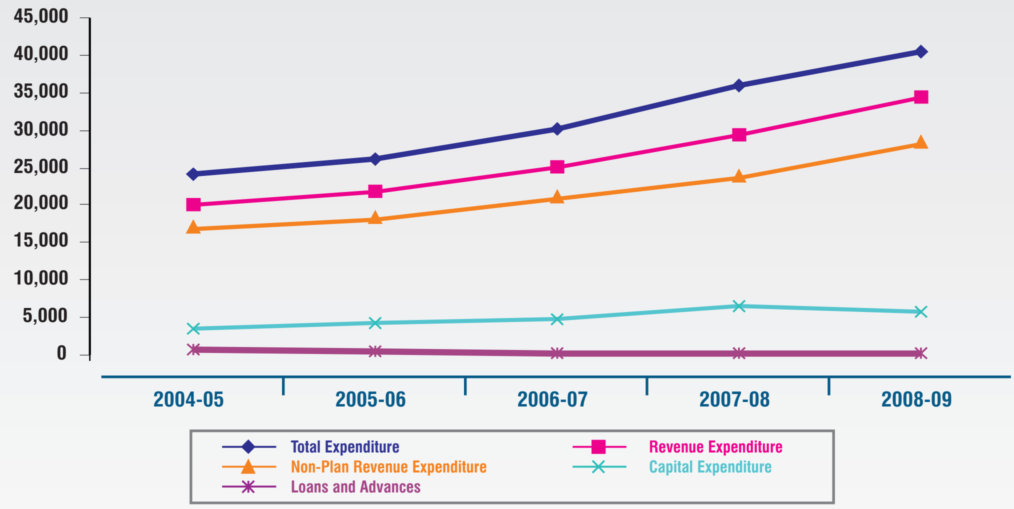
Table 1.5: Total expenditure and its composition

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Total Expenditure	**24,034**	**26,228**	**30,076**	**35,971**	**40,536**
Revenue Expenditure	19,906	21,499	24,954	29,128	34,296
Non-plan Revenue Expenditure	17,164	18,368	21,154	23,994	28,525
Capital Expenditure	3,488	4,295	4,809	6,555	5,900
Loans and Advances	640	434	313	288	340

Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7** and **1.8.**

Chart 1.6 Total Expenditure : Trends and Composition
(Rupees in Crore)



[10] See glossary at page 85.

[11] The Twelfth Finance Commission had recommended that all States should restructure their finances though fiscal consolidation (reduction of deficit and debt) and adopt a fiscal correction path by setting clear targets through a fiscal reform legislation.

The total expenditure of the State has increased by 69 *per cent* from Rs 24,034 crore in 2004-05 to Rs 40,536 crore in 2008-09. The total expenditure during the current year has increased by Rs 4,565 crore over the previous year. While the revenue expenditure increased by Rs 5,168 crore (18 *per cent*) and repayment of loans and advances increased by Rs 52 crore, a decrease of Rs 655 crore (10 *per cent*) was reported in capital expenditure during the current year relative to the previous year.

Similarly, the Non-Plan Revenue Expenditure (NPRE) increased by 19 *per cent* during the year relative to the projections of four *per cent* made by the State Government in MTFPS for 2008-09. The capital expenditure at Rs 5,900 crore exceeded the Assessments made by State Government in FCP (Rs 4,944 crore) but it was six *per cent* lower than that projected in MTFPS (Rs 6,272 crore).

Chart 1.7 Total Expenditure : Trends in Share of its Components
(Share in *per cent*)

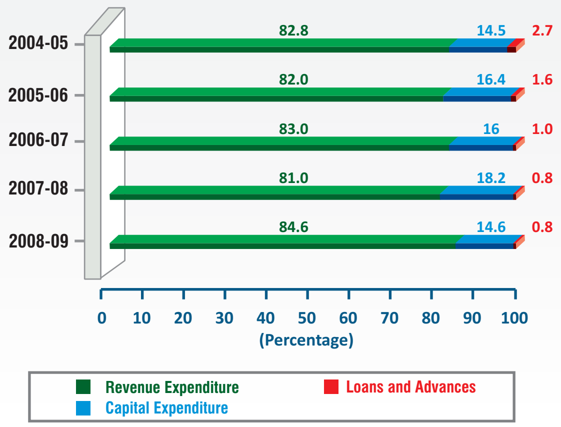
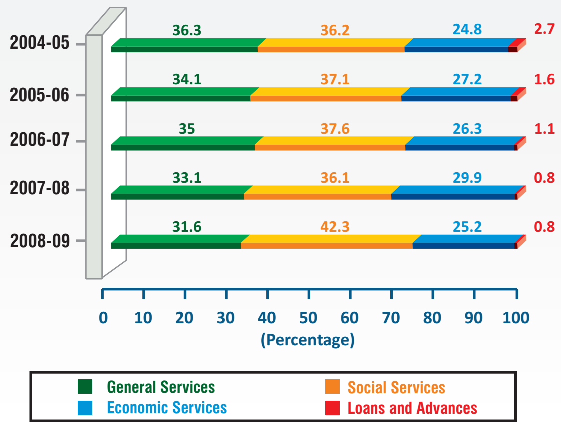


Chart 1.8 Total Expenditure : Trends by "Activities"
(Share in *Per cent*)



The movement of relative share of these components of total expenditure indicated that while the share of general services in total expenditure declined from 36 *per cent* in 2004-05 to 32 *per cent* in 2008-09, the relative share of social services and economic services increased from 36 *per cent* and 24.8 *per cent* in 2004-05 to 42 *per cent* and 25.2 *per cent* in 2008-09 respectively. Expenditure considered as non-developmental on general services, accounted for 31.6 *per cent* in 2008-09 as against 33.1 *per cent* in 2007-08. On the other hand, developmental expenditure i.e., expenditure on social and economic services together accounted for 67.5 *per cent* in 2008-09 as against 66 *per cent* in 2007-08.

The NPRE and Plan Revenue Expenditure (PRE) have shown consistent increase over the period 2004-09. The PRE increased by 12 *per cent* (Rs 637 crore) over the previous year but was below the projected increase of 26.2 *per cent* in MTFPS for 2008-09.

The increase in PRE by Rs 637 crore over previous year was mainly due to increased expenditure on National Rural Employment Guarantee Scheme under Rural Employment (Rs 300 crore), Non-formal education (Rs 193 crore), and Special Nutrition Programmes under Nutrition (Rs 87 crore).

The increase in NPRE during the current year was mainly due to assistance to *Gram Panchayats* under Other Rural Development Programmes (Rs 223 crore), Pensions and other Retirement Benefits (Rs 758 crore), assistance to Local Bodies for Primary Education (Rs 376 crore), Government Primary Schools (Rs 570 crore), Government Secondary Schools (Rs 766 crore), Interest Payments (Rs 281 crore), Medical and Public Health (Rs 451 crore), Rural Water Supply Programmes (Rs 208 crore), Forestry and Wild Life (Rs 109 crore), repairs and restoration of damaged roads and bridges under Relief on account of Natural Calamities (Rs 106 crore) and Strategic and Border Roads under Roads and Bridges (Rs 106 crore).

The actual non-plan revenue expenditure vis-à-vis assessments made by TFC and State Government are given below:

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in FCP	MTFPS	Actual
Non-Plan Revenue Expenditure	21,499	24,267	25,517	28,525

The actual NPRE exceeded the normative assessment made by TFC by Rs 7,026 crore (33 *per cent*) and the assessment made by the State Government both in its FCP and MTFPS for the year 2008-09 by Rs 4,258 crore and Rs 3,008 crore respectively.

1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. Table 1.6 and Chart 1.9 present the trends in the expenditure on these components during 2004-09.

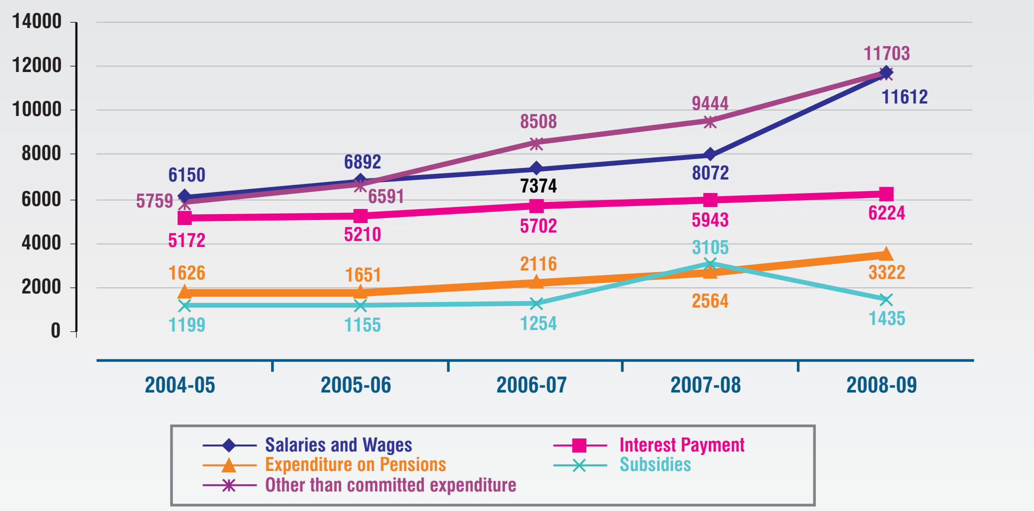
Table 1.6: Components of Committed Expenditure

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Salaries & Wages, *Of which*	6,150 (34.6)	6,892 (33.1)	7,374 (28.8)	8,072 (26.2)	9,096	11,703$ (35.0)
Non-Plan Head	5,767	6,398	6,863	7,579	9,096	11,053
Plan Head*	383	494	511	493	N.A.	650
Interest Payments	5,172 (29.1)	5,210 (25.0)	5,702 (22.3)	5,943 (19.3)	6,441	6,224 (18.6)
Expenditure on Pensions	1,626 (9.2)	1,651 (7.9)	2,116 (8.3)	2,564 (8.3)	3,001	3,322 (9.9)
Subsidies	1,199 (6.7)	1,155 (5.5)	1,254 (4.9)	3,105 (10.1)	3,932	1,435 (4.3)
Total committed expenditure	14,147 (79.6)	14,908 (71.5)	16,446 (64.3)	19,684 (63.9)	22,470	22,684 (67.8)
Other Components, i.e. other than committed expenditure	5,759 (32.4)	6,591 (31.6)	8,508 (33.2)	9,444 (30.7)	9,333	11,612 (34.7)
Total Revenue Expenditure	**19,906**	**21,499**	**24,954**	**29,128**	**31,803**	**34,296**
Revenue Receipts	**17,763**	**20,839**	**25,592**	**30,781**	-	**33,469**

Figures in the parentheses indicate percentage to Revenue Receipts
$ Salaries: Rs 11,269 crore (Finance Account) + Wages Rs 434 crore(VLC data of PAG-A&E)
*Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.
Source: Finance Accounts

Chart 1.9 Trend of Committed expenditure during 2004-09
(Rupees in Crore)



Expenditure on salaries increased by 45 *per cent* (Rs 3,631 crore) over the previous year. The increase was mainly due to implementation of award of Sixth Pay Commission. The expenditure on salary and wages at 47 *per cent* of revenue expenditure net of interest and pension payments is higher than the norm of 35 *per cent* recommended by the TFC. The salary expenditure at Rs 11,703 crore is also 37 *per cent* higher than the assessment made by the State Government in its FCP (Rs 8,215 crore) and 24 *per cent* higher than MTFPS (Rs 9,096 crore) for the year 2008-09.

The pension payments recorded a growth of 30 *per cent* over the previous year. The increase in expenditure under pension was due to implementation of award of Sixth Pay Commission and increase in number of pensioners by 11,935 over the previous years. The comparative analysis of actual pension payments and the assessment/projection made by TFC and the State Government shows that actual pension payment exceeded the normative assessment made by TFC by Rs 1,345 crore and the assessment made by the State Government both in its FCP and MTFPS for the year 2008-09 by Rs 508 crore and Rs 321 crore respectively.

The interest payments (Rs 6,224 crore) made during the year remained lower than the projections made in TFC (Rs 6,469 crore), MTFPS (Rs 6,441 crore) and assessment made by State Government in FCP (Rs 6,718 crore) for the year 2008-09.

The subsidy to Power Sector (Rs 1,383 crore) during the year 2008-09 was Rs 339 crore (32 *per cent*) higher than the assessment made by the State Government in FCP for 2008-09 (Rs 1,044 crore).

The ratio of salaries, interest payments, pensions and subsidies to revenue receipts of the State during the current year was 68 *per cent*, an increase of four percentage points over the previous year.

1.4.3 Financial assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to Local Bodies and others during the current year relative to the previous years is as follows:

Table 1.7: Financial Assistance to Local Bodies etc.

(Rupees in crore)

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	201.14	214.26	209.23	202.27	233.76	234.99
Municipal Corporations and Municipalities	615.20	678.20	720.21	793.82	932.41	932.41
Zila Parishads and Other *Panchayati Raj* Institutions	1,885.82	2,112.38	2,050.78	2,651.43	3,000.03	2,993.02[12]
Development Agencies	68.82	4.88	48.41	49.72	53.10	52.96
Hospitals and Other Charitable Institutions	34.05	193.97	86.50	135.63	96.17	96.23
Other Institutions	1,522.30	1,806.80	2,738.66	1,402.86[13]	2,176.06	2,178.99[14]
Total	**4,327.33**	**5,010.49**	**5,853.79**	**5,235.73**	**6,491.53**	**6,488.60**
Assistance as per percentage of RE	22	23	23	18	20	19

Source: Finance Accounts and vouchers compiled by PAG (A & E).

Financial Assistance to Local Bodies and other Institutions increased by Rs 1,252.87 crore recording a growth rate of 24 per cent over the previous year and constituted 18 to 23 per cent of revenue expenditure during the period 2004-09. During 2008-09, the Financial Assistance was given by the Government mainly to Primary Education: Rs 1,482 crore (23 per cent), Urban Development: Rs 932 crore (14 per cent), Other Rural Development: Rs 1,285 crore (20 per cent) and National Rural Employment Guarantee Scheme: Rs 440 crore (seven per cent).

[12] Includes General Education: Rs 1,568.17 crore and Other Rural Development: Rs 1,285.21 crore.

[13] Includes General Education: Rs 568 crore, Relief on account of Natural Calamities: Rs 189 crore, Crop Husbandry: Rs 184 crore and Taxes on Sales, Trade etc. Rs 100 crore

[14] Includes General Education: Rs 760.43 crore, Rural Employment: Rs 446.74 crore, Relief on account of Natural Calamities: Rs 278.55 crore and Crop Husbandry: Rs 258.52 crore.

1.4.4 Loss of Grants-in-aid due to non-fulfillment of NPRE levels

Government of India, Ministry of Finance issued orders during July 2005 for grant-in-aid of Rs 1,471.41 crore to be utilised during 2005-10 as recommended by the TFC. The State Government had constituted (August 2005) a High Level Committee headed by the Chief Secretary to ensure proper utilisation of grant-in-aid.

A review of records (July 2009) of Roads and Bridges Department revealed that the TFC has recommended a grant of Rs 633.32 crore[15] for the period 2006-10 in two installments each year for maintenance of Roads and Bridges under Major Head-3054. The second installment would be released subject to conditions[16] laid down in the guidelines of TFC. As the actual NPRE for the year 2006-07 (Rs.343.23 crore) was less (Rs 5.53 crore) than the total projected expenditure (normal expenditure and grant actually released) of Rs.348.76 crore, the GoI did not release the second installment of Rs 79.165 crore for the period 2008-09.

On being pointed out (July 2009) Government intimated (August 2009) that the matter was reported (January 2009) to the GoI for release of second installment after detection of shortfall in expenditure (Rs 5.53 crore). The GoI has intimated (January 2009) to the State Government that as per guidelines of the TFC the year wise level of NPRE was to be maintained/achieved during each year of its award period and in case there was any shortfall, it rendered State Government ineligible for the second installment. Thus the State Government was put to a revenue loss of Rs 79.165 crore due to non-release of second installment from GoI.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of Public Expenditure

Table 1.8: Fiscal Priority and Fiscal Capacity of the State in 2005-06 and 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	19.5	61.4	30.4	14.1
Rajasthan's Average (Ratio) 2005-06	21.4	65.9	37.1	16.4
All States/National Average* (Ratio) 2008-09	19.2	67.7	33.9	16.9
Rajasthan Average (Ratio)* 2008-09	21.1	68.3	42.3	14.6
Fiscal Capacity of the State	**DE#**	**SSE**	**CE**	
All States Average per capita expenditure 2005-06 (Amount in Rs)	3,010	1,490	692	
Rajasthan's per capita expenditure (Amount in Rs) in 2005-06	2,802	1,577	696	
Adjusted per capita** Expenditure (Amount in Rs) in 2005-06	NR	NR	NR	
All States' Average per capita expenditure 2008-09 (Amount in Rs)	5,030	2,520	1,254	
Rajasthan's per capita Expenditure (Amount in Rs) in 2008-09	4,262	2,637	908	
Adjusted per capita** Expenditure (Amount in Rs) in 2008-09	NR	NR	1,052	

* As per cent to GSDP
**** Calculated as per the methodology explained in the Box 1.3 (page 16)**
AE: Aggregate Expenditure DE: Development Expenditure **(see glossary at page 85)** SSE: Social Sector Expenditure
CE: Capital Expenditure.
Population of Rajasthan: 6.17 crore in 2005-06 and 6.49 crore in 2008-09.
\# Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed.
Source : (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics
(2) Population figures were taken from Projection 2001-2026 of the Registrar General & Census Commissioner, India (Website: http://www.censusindia.gov.in)
Population = Average of Projected population for 2005 and 2006.
NR : No adjustment required as there is adequate fiscal priority for this category of expenditure.
Note: Data for Arunachal Pradesh has not been included in All States' average

[15] Rs 158.33 crore each year.
[16] Also see foot note No. 7 at page no. 8.

As shown in Table 1.8, the State Government gave adequate fiscal priority to all categories of expenditure in the beginning of TFC award period 2005-06. The State's average expenditure in terms of AE, DE, SSE and CE was well above the national average. In 2008-09, however, there was adequate priority for all categories of expenditure compared to the national average except in the case of Capital expenditure, where the CE/AE ratio was less than the national average, indicating low fiscal priority to CE.

In 2005-06, the per capita expenditure of DE and CE in the State were Rs 2,802 and Rs 696 compared to the national per capita expenditure in these categories of Rs 3,010 and Rs 692 respectively. This means that even though the State had spent an adequate amount under these heads, the absorptive capacity[17] in Rajasthan is low and there is a need to improve systems so that there is greater benefit to the people. *In 2005-06 and 2008-09, in the case of SSE, the per capita expenditure was higher than the national average which indicates that these schemes were effectively implemented in Rajasthan.*

In 2008-09, as the per capita expenditure of DE and CE was lower than the national averages (Rs 4,262 and Rs 908 against the national per capita expenditure of Rs 5,030 and Rs 1,254 respectively).

Since the priority given to CE in 2008-09 was lower than the national average, an effort was made to adjust the CE using the methodology explained in Box 1.3. Even after this adjustment, the per capita CE was only Rs 1,052 which was still lower than the national average. This indicated that there is a great need to improve the effectiveness of capital expenditure programmes/schemes so that the benefits are realized by the people. One way to achieve this is by timely completion of projects so that the money spent is actually translated into a capital asset that can benefit the people.

Box 1.3

Methodology Adopted for the Assessment of Fiscal Position

For working out the fiscal capacity of the State Governments, the following methodology given in Twelfth Finance Commission report has been adopted.

Step 1: Calculate the national average of AE-GSDP and CE/DE/SSE–AE.

Step 2: Based on the national average of AE-GSDP ratio, derive the aggregate expenditure so that no State is having a ratio AE-GSDP less than the national average, i.e., if

AE/GSDP = x

AE = x * GSDP ....(1)

where x is the national average of AE-GSDP ratio.

Wherever the States are having AE-GSDP ratio higher than national average, no adjustments were made. Wherever this ratio was less than average, it was made equal to the national average.

Step 3: Based on the national average of DE-AE, SSE-AE and CE-AE, derive the respective DE, SSE and CE, so that no State is having these ratios less than national average, i.e., if

DE/AE = y

DE = y * AE ....(2)

where y is the national average of DE-AE ratio

Substituting (1) in (2), we get

DE = y * x * GSDP ....(3)

Wherever the States are having DE-AE, SSE-AE and CE-AE ratio higher than national average, no adjustments have been made. Wherever these ratios were less than average, it was made equal to the national average.

Step 4: Based on the derived DE, SSE and CE as per equation (3), respective per capita expenditure was calculated, i.e.,

PCDE = DE/P ....(4)

where PCDE is the per capita development expenditure and P is the population.

Substituting (3) in (4), we get

PDE = (y * x * GSDP)/P ....(5)

Equation (5) provides the adjusted per capita expenditure. If the adjusted per capita expenditure is less than the national average of per capita expenditure, then the States' low level of spending is due to the low fiscal capacity. This gives a picture of actual level of expenditure when all the State Governments are attaching fiscal priority to these sectors equivalent to the national average.

[17] Absorptive capacity refers to the State's ability to implement a developmental scheme in such a way that with given resources, there is maximum benefit to the people. This is usually achieved when the design of schemes are well planned with a careful risk mitigation strategy in place, low administrative costs, operation, maintenance, monitoring and control mechanisms are in place etc., so that it is possible to effectively achieve targeted outcomes.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods[18]. Apart from improving the allocation towards development expenditure[19], the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.9** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years, **Table 1.10** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.9: Development Expenditure

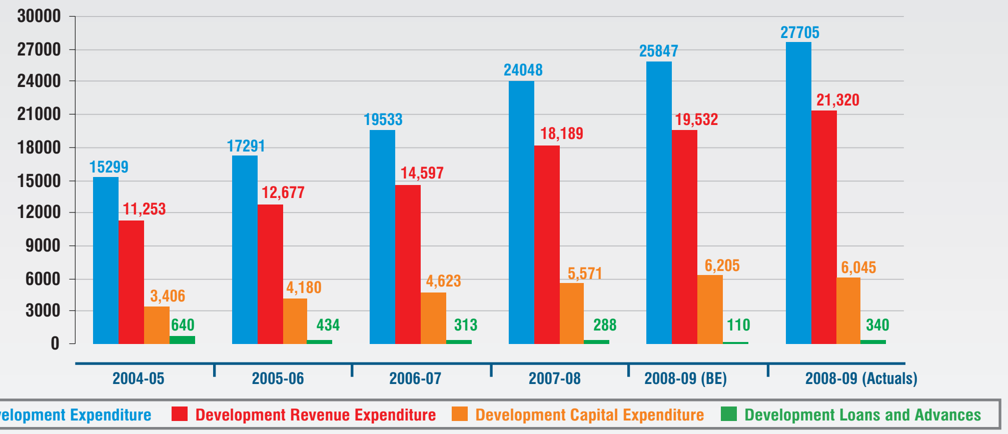
(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Development Expenditure (a to c)	**15,299 (63.7)**	**17,291 (65.9)**	**19,533 (64.9)**	**24,048 (66.9)**	**25,847 (67.7)**	**27,705 (68.3)**
a. Development Revenue Expenditure	11,253 (46.8)	12,677 (48.3)	14,597 (48.5)	18,189 (50.6)	19,532 (51.2)	21,320 (52.6)
b. Development Capital Expenditure	3,406 (14.2)	4,180 (15.9)	4,623 (15.4)	5,571 (15.5)	6,205 (16.2)	6,045 (14.9)
c. Development Loans and Advances	640 (2.7)	434 (1.7)	313 (1.0)	288 (0.8)	110 (0.3)	340 (0.8)

Figures in parentheses indicate percentage to aggregate expenditure

The development expenditure increased by 15 *per cent* over the previous year. Expenditure on Social Sector increased by 32 *per cent* from Rs 13,000 crore in 2007-08 to Rs 17,141 crore in 2008-09 while Economic Sector decreased by five *per cent* from Rs 10,760 crore in 2007-08 to Rs 10,224 crore in 2008-09. Recognising the need to improve education and health service, TFC recommended that the Non-Plan Salary expenditure under education and health and family welfare should increase by five to six *per cent* while non-salary expenditure under Non-Plan heads should increase by 30 *per cent* per annum during the award period. However, trend in expenditure (taking under both Plan and Non-Plan heads) revealed that the salary and wages component under education increased by 47 *per cent* and 33 *per cent* respectively over 2007-08 while under health and family welfare sector these components increased by 48 *per cent* and 23 *per cent* respectively.

Chart 1.10 Development Expenditure for the years 2004-05 to 2007-08 and Budget Estimates vis-a-vis Actuals 2008-09 (Rupees in Crore)



[18] *Core public* goods are which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

[19] The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Table 1.10: Efficiency of Expenditure Use in Selected Social and Economic Services

(In percent)

Social/Economic Infrastructure	2007-08			2008-09		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S & W	O&M *		S&W	O&M *
Social Services (SS)						
General Education	0.61	62.84	—[20]	0.21	65.17	—[20]
Health and Family Welfare	6.30	76.14	0.10	1.17	79.28	0.08
Water Supply, Sanitation, Housing and Urban Development	58.62	29.19	2.26	55.73	32.41	1.87
Total (SS)	**21.54**	**51.34**	**0.40**	**18.02**	**54.79**	**0.32**
Economic Services (ES)						
Agriculture and Allied Activities	8.24	50.53	1.97	8.79	56.64	1.30
Irrigation and Flood Control	45.52	16.84	4.57	42.49	19.12	4.92
Power & Energy	25.76	—	—	49.12	—	—
Transport	35.04	8.51	1.91	25.76	9.02	13.43
Total (ES)	**25.75**	**10.29**	**1.02**	**28.92**	**16.32**	**2.67**
Total (SS+ES)	**23.45**	**33.31**	**0.67**	**22.09**	**41.68**	**1.12**

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.
* As per Finance Accounts it represents actual expenditure booked under Detailed Head-21-Maintenance and Repairs.

The ratio of salary & wage component to revenue expenditure of Social Sector and Economic Sector increased by 3.45 and 6.03 percentage points respectively over the previous year. During 2008-09, as per Finance Accounts the State Government booked only Rs 277 crore under Detailed Head-21-Maintenance and Repairs to maintain its public assets. The total corpus of assets, being maintained with Rs 277 crore, is rather large and the limited allocation of funds may not suffice to keep assets in a good state of repair.

1.6 Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit at low levels and also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents an analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.6.1 Financial results of completed Irrigation Works

The financial results of six completed major and 11 medium irrigation projects with a capital outlay of Rs 4,399 crore at the end of March 2009 showed that revenue realised (Rs 50 crore) from these projects during 2008-09 was only 1.1 *per cent* of the capital expenditure which was not sufficient to cover the direct working expenses. After meeting the working and maintenance expenditure (Rs 117 crore) and interest charges (Rs 422 crore), the projects suffered a net loss of Rs 489 crore.

Indira Gandhi Nahar Project (IGNP) is the largest irrigation project under execution in Rajasthan and various stages of it have been completed over the years. At the end of March 2009, the capital expenditure on IGNP was Rs 3,449.99 crore. During 2008-09, the revenue realised from IGNP was Rs 18.77 crore comprising just 0.5 *per cent* of the capital expenditure. This revenue was negligible (4.8 *per cent*) even with reference to total working and maintenance expenditure (Rs 56.94 crore) incurred and the interest charges of Rs 333.69 crore relating to 2008-09.

[20] 2007-08: 0.003 per cent and 2008-09: 0.002 *per cent* only.

1.6.2 Incomplete Projects

The department-wise information pertaining to incomplete projects as on 31 March 2009 is as follows:

Table 1.11: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Total no. of Incomplete Projects	Original sanctioned cost of all incomplete projects	Original estimated cost of 75 projects which were revised		Revised cost of 75 incomplete projects	Cost Over run of 75 projects which were revised	Cumulative actual exp. of all incomplete projects as on 31.3.2009
			No.	Amount			
Irrigation Works/Projects	200	1,605.81	56	923.37	2,906.20	1,982.83	2,118.44
Public Works Department/ Project	190	671.34	4	7.99	12.96	4.97	289.36
Bisalpur Drinking Water Cum Irrigation Project	2	2.74	2	2.74	3.31	0.57	2.91
Public Health Engineering Department	187	5,030.61	13	243.75	782.96	539.21	2,348.00
Total	**579**	**7,310.50**	**75**	**1,177.85**	**3,705.43**	**2,527.58**	**4,758.71**

Source: Finance Accounts 2008-09.

According to information received from the State Government, as of 31 March 2009, there were 579 incomplete projects (total cost more than Rs 1 crore of each project) in which Rs 4,759 crore were blocked. Of these, 495 projects involving Rs 1,379 crore remained incomplete for less than five years, 84 projects involving an amount of Rs 3,380 crore remained incomplete for periods ranging from five to 21 years. The revised cost of 75 incomplete projects increased by 215 *per cent* from Rs 1,178 crore (initial budgeted cost) to Rs 3,705 crore (total revised cost). Out of the total cost overrun of Rs 2,528 crore, Rs 1,983 crore pertained to Irrigation Works/Projects, of which Narmada Jalore Project alone increased by 322 *per cent* from Rs 468 crore to Rs 1975 crore.

1.6.3 Investment and returns

As of 31 March 2009, Government had invested Rs 7,930 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives **(Table 1.12)**. The average return on this investment was 0.2 to 0.5 *per cent* in the last three years while the Government paid an average interest rate of 7.7 to 8.3 *per cent* on its borrowings during 2007-2009.

Table 1.12: Return on Investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rs in crore)	4,092.60	4,770.43	5,485.26	6,575.97	7,929.63
Return (Rs in crore)	37.19	22.57	9.62	12.67	43.39
Return *(per cent)*	0.9	0.5	0.2	0.2	0.5
Average rate[21] of interest on Govt borrowing *(per cent)*	9.1	8.2	8.3	8.0	7.7
Difference between interest rate and return *(per cent)*	8.2	7.7	8.1	7.8	7.2

Source: Finance Accounts.

The investment of State Government included Rs 7,197 crore in 33 Government Companies, of which only six companies declared dividend aggregating to Rs 41.09 crore against an investment of Rs 293 crore. During 2008-09, the State Government has invested Rs 1,353.66 crore in Government Companies, Rural Banks and Co-operative Banks and Societies. The sectors/companies where major investments were made during 2008-09 were (i) Co-operative Banks and Societies (Rs 9.18 crore), (ii) Rajasthan *Rajya Vidyut Utpadan Nigam* Limited (Rs 706 crore), (iii) Jaipur *Vidyut Vitran Nigam* Limited (Rs 235 crore), (iv) Rajasthan *Rajya Vidyut Prasaran Nigam* Limited (Rs 165 crore), (v) Ajmer *Vidyut Vitran*

[21] see glossary at page 85 for method of calculation.

Nigam Limited (Rs 120 crore) and (vi) Jodhpur *Vidyut Vitran Nigam* Limited (Rs 110 crore). As on 31 March 2009, five power companies in which Government had invested Rs 6,823.09 crore (86 *per cent* of total investment) showed nil Profit/Loss in their accounts and no dividend paid to Government. These companies were not showing any accumulated losses in their accounts. The State Government had invested Rs 311.60 crore in two statutory corporation, two rural banks, 11 government companies and seven joint stock companies and their accumulated losses amounted to Rs 1,966.21 crore as per accounts furnished by these companies up to 2008-09.

1.6.4 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the investment made by the Government up to the year for which *pro forma* accounts are finalised, net profits/loss as well as return on capital invested in these undertakings are given in ***Appendices 1.6*** and ***3.4***. It is observed that:

- An amount of Rs 6,910.36 crore had been invested by the State Government in 12 undertakings at the end of financial year up to which their accounts were finalised. The accumulated losses of these departmental undertakings were Rs 5510.25 crore as against the total investment of Rs 6,910.36 crore.
- Of the total 12 undertakings, only three undertakings[22] (25 *per cent*) could earn net profit during the current year amounting to Rs 18.29 crore and accumulated profit of Rs 177.64 crore up to the year of accounts finalized against the capital invested[23]. Though one undertaking[24] incurred loss of Rs 0.04 crore during the year, it has accumulated profit of Rs 2.56 crore up to the year end.
- Of all the loss making undertakings, seven undertakings[25] were incurring losses continuously for more than five years and one undertaking[26] had turned into a non-performing one during the current year.

Detailed analysis of *pro forma* accounts of Rajasthan Water Supply and Sewerage Management Board (RWSSMB) for the year 2007-08 revealed the following:

- Despite continuously being pointed out in the Reports of the Comptroller and Auditor General of India (Civil) from the year ended 31 March 2007, RWSSMB, Jaipur did not maintain essential Ledgers/Reports[27]. The year-wise break up of sundry debtors of Rs 176.71 crore was also not available. In the absence of Fixed Assets Schedules and their physical verification, the existence of fixed assets valuing Rs 1,380.63 crore could not be verified in audit.
- The revenue of RWSSMB from sale of water was insufficient even to recover the bare direct costs of water production and distribution i.e. cost of raw water, chemicals and electricity charges. The realization from sale of water (Rs 152.39 crore) was 53 *per cent* of these costs (Rs 287.13 crore). Besides, the other direct costs like salaries, wages, repair and maintenance of pumps, pipelines and civil works, interest on loan, rent, rates and taxes, indirect charges etc. also remained unrecovered.

In view of the heavy losses of some of the undertakings, the Government should review their working so as to wipe out their losses in the short run and to make them self-sustaining in medium to long term.

[22] Departmental Trading of Forest Coupes (Rs 15.70 crore); Patta Tendu Scheme (Rs 2.56 crore) and Government Salt Works, Deedwana (Rs 0.03 crore).

[23] Capital investment of the Government is Nil as the remittances from the undertakings were more than the amount invested by the Government.

[24] Sodium Sulphate Works, Didwana.

[25] Jail Manufacture, Ajmer (Rs 1.09 crore), Alwar (Rs 0.40 crore), Bikaner (Rs 0.88 crore), Jaipur (Rs 1.57 crore), Jodhpur (Rs.1.28 crore), Kota (Rs 0.29 crore) and Rajasthan Water Supply and Sewerage Management Board, Jaipur (Rs 5503.99 crore).

[26] Jail Manufacture, Udaipur.

[27] Material at site account, Works Abstract, Journal vouchers, General Ledgers, Subsidiary Ledgers, Trial Balance and Docket vouchers.

1.6.5 Loans and advances by State Government

In addition to investments in co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. Table 1.13 presents the outstanding loans and advances as on 31 March 2009, interest receipts vis-à-vis interest payments during the last three years.

Table 1.13: Average interest received on loans advanced by Government

(Rupees in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2006-07	2007-08	2008-09	
			BE	ACTUAL
Opening Balance	4,432	4,231	2,725	2,738
Amount advanced during the year	313	288	110	340
Amount repaid during the year	514	1,781	97	89
Closing Balance	**4,231**	**2,738**	**2,738**	**2,989**
Of which, outstanding balance for which terms and conditions have been settled	N.A	N.A.	N.A.	N.A.
Net addition	(-) 201	(-)1493	13	251
Interest Receipts	128	140	–	124
Interest receipts as *per cent* to outstanding Loans and advances	3.0	4.0	–	4.3
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	8.3	8.0	–	7.7
Difference between interest payments and interest receipts (*per cent*)	(-) 5.3	(-) 4.0	–	(-) 3.4

During the current year major portion of loan was advanced to Jaipur *Vidyut Vitran Nigam* Limited (Rs 90 crore), Ajmer *Vidyut Vitran Nigam* Limited (Rs 90 crore), Jodhpur *Vidyut Vitran Nigam* Limited (Rs 70 crore), Rajasthan Pensioner Medical Fund for Indoor Medical facility Scheme to Pensioners (Rs 10 crore), Rajasthan Agriculture Marketing Board (Rs 55 crore) and Macro Co-operative Development Project (Rs 9 crore).

During 2008-09, the recovery of loans and advances substantially decreased by Rs 1,692 crore. During 2007-08 higher recoveries were due to adjustment of outstanding loan amount of Rs 1,666 crore against erstwhile Rajasthan State Electricity Board (RSEB) as subsidies by Government. Out of total outstanding loans and advances of Rs 2,989 crore, the loans and advances of Rs 2,359 crore (79 *per cent*) were given to Power Projects. During 2008-09, only 3.25 *per cent* (Rs 89 crore) loan was repaid by institutions/organizations (Rajasthan Rajya Vidyut Prasaran Nigam Limited: Rs 42 crore, Jaiput Vidyut Vitran Nigam Limited: Rs 11 crore, Jodhpur Vidyut Vitran Nigam Limited: Rs 9 crore, Ajmer Vidyut Vitran Nigam Limited: Rs 9 crore and Debentures of Special Schemes of ARC Rs 8 crore). More than Rs 89 crore of loans was not repaid by the institutions (Appendix 1.7) since last six or above years.

1.6.6 Cash balances and Investment of Cash balances

Table 1.14 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.14: Cash balances and Investment of Cash balances

(Rupees in crore)

Particulars	As on 1st April 2008	As on 31st March 2009	Increase/ Decrease (-)
Cash in Treasuries	0.51	0.05	(-) 0.46
Deposits with Reserve Bank	(-) 912.41	(-) 362.94	549.47
Remittances in Transit-Local	0.34	(-) 3.98	(-) 4.32
Cash with the departmental Officers, Viz., Divisional Officers of the Public Works and Forest Departments	4.14	2.10	(-) 2.04
Permanent advance for contingent expenditure with departmental officers	12.74	12.76	0.02
Investments from Cash balances (a to e)	5,839.60	5,268.21	(-) 571.39
a. GoI Treasury Bills	5,839.43	5,268.04	(-) 571.39
b. GoI Securities	0.01	0.01	-
c. Securities of the State Government	0.03	0.03	-
d. Sterling Securities	0.05	0.05	-
e. Short-term deposit with banks and other accounts	0.08	0.08	-
Funds-wise Break-up of Investment from Earmarked balances (a to c)	348.47	249.72	(-) 98.75
a. Guarantee Redemption Fund Investment account	98.75	-	(-) 98.75
b. Government of India Securities	172.08	172.08	-
c. Pay back of RSD Loans	77.64	77.64	-
Total Cash Balance	**5,293.39**	**5,165.92**	**(-) 127.47**
Interest realised	*177.24*	*209.91*	*32.67*

Source: Finance Accounts 2008-09

The interest received against Investment on Cash Balance was 3.8 per cent during 2008-09 while Government paid interest at 7.7 *per cent* on its borrowings during the year.

The State Government's cash balances at the end of the current year amounted to Rs 5,166 crore. It decreased by Rs 127 crore over the previous year. It was observed that Rs 5,268 crore were invested in Government of India Securities, which earned an interest of Rs 210 crore during the year. Further, Rs 250 crore was invested in earmarked funds. However, deposits with Reserve Bank of India were (-) Rs 362.94 crore as on 31 March 2009.

The efficiency of handling the cash balances by the State can also be assessed by monitoring the trends in monthly daily average of cash balances held by the State to meet its normal banking transactions. Table 1.15 presents the trends in monthly average daily cash balances and the investments in Auction Treasury Bills for the last three years (2006-09).

Table 1.15: Trends in Monthly Average Daily Cash Balances and the Investments in Auction Treasury Bills

(Rupees in crore)

Month	Monthly Average Daily Cash Balances			Investment in 14 days Treasury Bills			Investment in Auction Treasury Bills		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
April	2.98	14.56	3.56	3,609.26	2,166.91	4,036.00	Nil	Nil	884.58
May	2.89	2.35	2.49	2,493.05	2,100.71	4,994.01	Nil	Nil	245.50
June	2.34	2.35	2.35	2,118.49	3,163.97	4,543.85	Nil	Nil	1,274.97
July	2.35	2.34	2.35	1,715.96	3,518.28	4,122.42	1,371.83	1,075.14	978.18
August	2.34	3.04	3.49	2,121.54	3,112.05	3,071.43	246.05	687.32	1,027.49
September	2.35	2.37	11.28	2,389.69	1,919.20	3,967.69	Nil	98.28	Nil
October	2.37	2.35	6.35	1,114.43	3,394.11	4,683.40	872.64	491.41	Nil
November	2.35	2.34	2.35	1,996.12	3,067.30	4,712.85	Nil	540.00	Nil
December	2.35	2.34	2.34	2,437.90	2,510.06	6,803.74	Nil	785.44	Nil
January	2.34	2.58	2.35	2,301.12	5,364.36	6,458.34	836.14	295.31	Nil
February	3.97	2.34	2.67	2,057.09	3,877.87	6,625.39	Nil	1,522.42	Nil
March	2.34	17.36	5.49	5,164.74	6,542.00	11,922.47	2,105.05	589.24	Nil

State Government has maintained a minimum cash balance of Rs 2.34 crore as per agreement with the Reserve Bank of India during the last three years as exhibited in the Table 1.15.

Government of India Treasury Bills amounting to Rs 70,568 crore were purchased and Rs 71,140 crore rediscounted during 2008-09. Resultantly, investment from cash balance decreased by Rs 572 crore over the previous year.

1.7 Assets and Liabilities

1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings 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. Appendix 1.4 gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

According to Rajasthan Fiscal Responsibility and Budget Management (FRBM) Act, 2005, the total liability means the explicit liabilities under Consolidated Fund of the State and the Public Account of the State including General Provident Fund.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in *Appendix 1.2*. However the composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in Chart 1.11 and 1.12.

Chart 1.11 Composition of Outstanding Fiscal Liabilities as on 1.04.2008

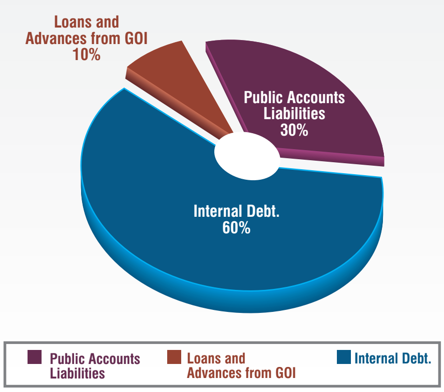
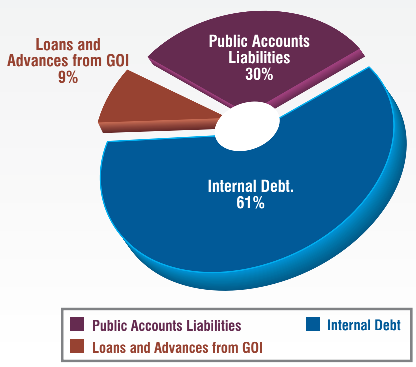


Chart 1.12 Composition of Outstanding Fiscal Liabilities as on 31.03.2009



The growth rate of fiscal liability was nine per cent during 2008-09 over previous year. The Consolidated Fund Liability (Rs 58,766 crore) comprised of market loan (Rs 24,499 crore), loans from Government of India (Rs 7,617 crore) and other loans (Rs 26,650 crore). The Public Account liabilities (Rs 25,257 crore) comprise of Small Saving, Provident Fund (Rs 16,827 crore), interest bearing obligations (Rs 2,386 crore) and non-interest bearing obligations like deposits and other earmarked funds (Rs 6,044 crore). The ratio of fiscal liabilities to GSDP was 44 *per cent* in 2008-09 and was higher than the norms of 30 *per cent* recommended by the TFC for the terminal year (2009-10). These liabilities stood at 2.5 times the revenue receipts and 4.5 times the States own resources at the end of 2008-09.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. According to FRBM Act, State Government shall ensure that the total outstanding debt, excluding Public Account, and risk weighted outstanding guarantees in a year shall not exceed twice the estimated receipts in the Consolidated Fund of the State at the close of the Financial Year. The Government set up a Guarantee Redemption Fund in 1999-2000 and as on 31 March 2009 there were Rs 146.73 crore under this Fund. During the year the Government received Rs 25.08 crore as guarantee commission. However, accumulated amount to the extent of Rs 11 crore could not be transferred to Guarantee Redemption Fund up to 2008-09.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is as follows.

Table 1.16: Guarantees given by the Government of Rajasthan

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09
Maximum amount guaranteed	27,402	37,029	46,080
Outstanding amount of guarantees	14,709	19,770	27,765
Percentage of maximum amount guaranteed to total revenue receipts	107.1	120.3	137.7

The outstanding guarantees increased by 40 *per cent* from Rs 19,770 crore in 2007-08 to Rs 27,765 crore in 2008-09. The outstanding guarantees of Rs 27,765 crore are given mainly to seven Government Companies (Rs 25,863 crore: 93 *per cent*) for repayment of loans/overdraft, amount raised by issue of bonds/debentures and payment of interest thereon. The outstanding guarantees were 83 *per cent* of the revenue receipts of the Government, which were well within the ceiling limit prescribed by the FRBM Act. No guarantee was invoked during the year 2008-09.

It is pertinent to note that if the liabilities arising out of the outstanding guarantees are added to the fiscal liabilities of the State Government at the close of the current year, the ratio of total liabilities to GSDP would increase to 58 *per cent* from 44 *per cent*.

1.7.4 Off-Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the fiscal liabilities of the State, the State guaranteed loans are availed of by Government companies/corporations. These companies/ corporations borrow funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the State Government projects that funds for these programmes would be met out of the resources mobilized by these companies/corporations outside the State budget, in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. Though off-budget borrowings are not permissible under Article 293 (3), the State continues to undertake such off-budget borrowings, as shown below:

Table 1.17: Borrowings by the Public Sector Undertakings for fulfillment of State Plans

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Outstanding Balance as on 31.03.2009
Power Utilities	359.69	337.12	605.12	877.26	3,796.94[28]	4,123.60[28]	9,806.77[29]
Rajasthan State Road Transport Corporation	62.29	74.31	95.43	68.98	59.43	141.59	210.24
Rajasthan State Road Development and Construction Corporation Limited	1.93	31.75	15.80	6.67	–	–	20.05
Rajasthan State Agriculture Marketing Board	–	–	–	–	40.00	55.00	95.00
Public Health Engineering Department	–	–	–	–	–	–	60.31
Rajasthan Housing Board	8.57	9.31	0.40	–	–	–	27.37
Total	**432.48**	**452.49**	**716.75**	**952.91**	**3,896.37**	**4,320.19**	**10,219.74**

Source: Finance Department.

The Finance Department intimated (July 2009), that State Government does not use the borrowings of Public Sector Undertakings for meeting State's budgeted plan expenditure and also that its debt servicing is not made through Consolidated Fund of the State. Hence, the State Government treated these as the borrowings of Public Sector Undertaking only and not off-budget borrowings of the State Government. Funds borrowed by Government companies could become a contingent liability for the Government if the companies are unable to repay. There is often a pressure on the State Government to step in even though there may be no legal requirement to do so. Hence, it is imperative that borrowings of State owned companies are managed prudently.

1.8 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section assesses the debt sustainability of the State Government in terms of debt stabilization; sufficiency of non-debt receipts; net availability of borrowed funds; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. Table 1.18 and 1.19 analyses the debt sustainability of the State according to these indicators for the period of three years beginning 2006-07.

Table 1.18: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Deficit)[30]	6,646	6,946	3,338
Sufficiency of Non-debt Receipts (Resource Gap)	1,180	562	(-) 3,566
Net Availability of Borrowed Funds	(-) 1,022	108	661
Burden of Interest Payments (IP/RR *per cent*)	22	19	19

[28] The figures of borrowings are provisional.

[29] The bifurcation of repayment made in respect of Renewable Energy Corporation (REC) loans under Plan and Non-Plan is not available. Hence the total repayment figures have been taken in to account and the closing balance is inclusive of both.

[30] see glossary at page 85.

The sum of Quantum Spread and Primary deficit was positive during 2006-09 resulting in declining trend in debt-GSDP ratio. These trends indicate that the State is moving towards debt stabilization, which, if continued would eventually improve the debt sustainability position of the State. However, the non-debt receipts (Resource Gap) indicated declining trend over the period. During 2008-09, the non-debt receipts increased by Rs 999 crore while the total expenditure increased by Rs 4,565 crore. The net fund available from borrowing after providing for the interest and repayment increased from Rs 108 crore in 2007-08 to Rs 661 crore in 2008-09. During the current year the available borrowed fund increased by Rs 17,107 crore while the Government repayment increased by Rs 16,554 crore. The ratio of interest payments to revenue receipts decreased from 19.3 *per cent* in 2007-08 to 18.6 *per cent* in 2008-09.

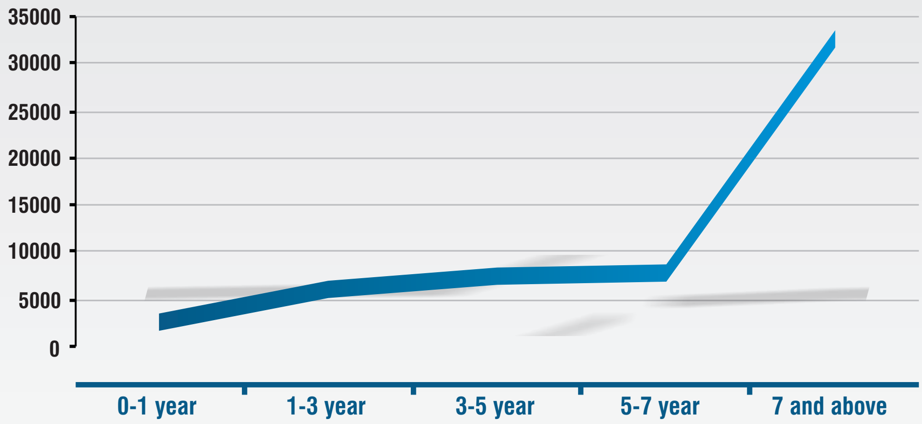
Table 1.19: Maturity Profile of State Debt

(Rupees in crore)

Maturity Profile	Amount	Percent
0-1 year	2,570.66	4.37
1-3 Years	5,824.81	9.91
3-5 Years	7,414.30	12.62
5-7 Years	7,780.07	13.24
7 and above	32,436.54	55.20
Information not furnished by the State Government	2,739.84	4.66
Total	**58,766.22**	**100**

Source: Finance Accounts.

Chart 1.13 Maturity profile of State Debt.
(Rupees in Crore)



As per data shown in Table 1.19, the maturity profile of 4.66 *per cent* of the debt stock is not clearly defined. There will be a bunching of repayments in around 3-5 years time as well as 5-7 years time. A well thought out debt repayment strategy will ensure that no additional borrowings which mature in these critical years is undertaken.

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents 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 way in which the deficit is financed and the resources are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in Deficits

Charts **1.14** and **1.15** present the trends in deficit indicators over the period 2004-09.

Chart 1.14 Trends in Deficit Indicators
(Rupees in Crore)

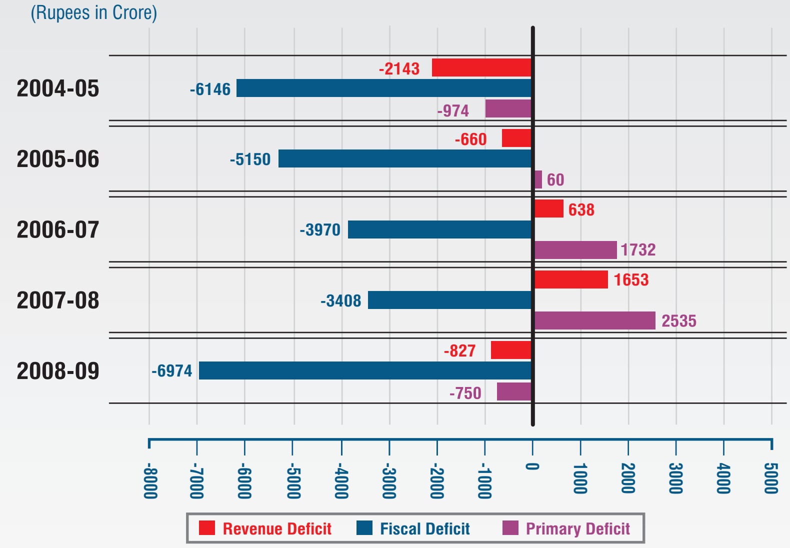
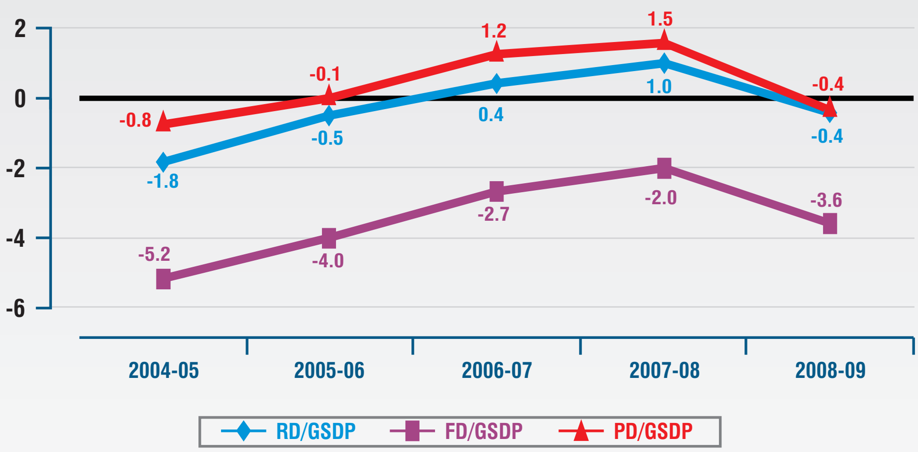


Chart 1.15 Trends in Deficit Indicators Relative to GSDP
(In *per cent* to GSDP)



From a revenue surplus position in 2006-07 and 2007-08, the State had a revenue deficit of Rs 827 crore in 2008-09. Further, the net loans and advances were positive in the current year compared to the negative position in previous years. Consequently, the fiscal deficit deteriorated from Rs 3408 crore in 2007-08 to Rs 6974 crore in 2008-09, indicating an increase of 105 *per cent*. Fiscal deficit as a percentage of GSDP increased from 2 *per cent* in 2007-08 to 3.6 *per cent* in 2008-09 (against a revised FRBM Act target of 3.5 *per cent*).

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the Table 1. 20.

Table 1.20: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit					
Fiscal Deficit (1 to 3)	**6,146**	**5,150**	**3,970**	**3,408**	**6,974**
1. Revenue Deficit / surplus (-)	2,143	660	(-) 638	(-) 1,653	827
2. Net Capital Expenditure	3,488	4,294	4,809	6,554	5,896
3. Net Loans and Advances	515	196	(-) 201	(-) 1,493	251
Financing Pattern of Fiscal Deficit*					
1. Market Borrowings	2,076	643	1,065	3,233	5,196
2. Loans from GoI	2,992	(-) 19,012[31]	(-) 295	46	(-) 66
3. Special Securities Issued to National Small Saving Funds	-	22,681	1,745	(-) 223	(-) 434
4. Ways and Means	-	-	59	(-) 59	-
5. Loans from Financial Institutions	42	191	(-) 132	220	350
6. Small Savings, Provident Fund etc	1,166	1,377	1,245	1,119	1,405
7. Deposits and Advances	163	429	592	557	347
8. Suspense and Miscellaneous	(-) 12	(-) 19	51	2	39
9. Remittances	10	(-) 13	(-)[32]	(-) 14	21
10. Reserve Fund	335	(-) 37	710	1,198	(-) 11
11. Increase (-)/ Decrease (+) in Cash Balance	(-) 626	(-) 1,090	(-) 1,070	(-) 2,671	127
12. Overall Deficit (1 to 12)	6,146 (5.2)	5,150 (4.0)	3,970 (2.7)	3,408 (2.0)	6,974 (3.6)

Figures in brackets indicate the per cent to GSDP. *All these figures are net of disbursements/outflows during the year

During 2008-09, the fiscal deficit of Rs 6,974 crore was mainly met out from market borrowing Rs 5,196 crore and Small Savings, Provident Fund etc. Rs 1,405 crore. The net market borrowing and the small saving, provident fund etc, increased by 61 *per cent* and 26 *per cent* respectively over the previous year; thus increasing the interest burden in future.

1.9.3 Quality of Deficit/Surplus

The ratio of RD to FD and the composition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) did not have adequate asset backup. The bifurcation of the primary deficit (Table-1.21) indicated the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

[31] minus figure is due to transfer of Rs 19,029 crore from loans and advances from GoI to Special Securities to NSSF as per TFC recommendation.
[32] only Rs 0.29 crore.

Table 1.21: Primary deficit/Surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts (NDR)	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	NDR vis-à-vis Primary Revenue Expenditure	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2004-05	17,888	14,734	3,488	640	18,862	(+) 3,154	(-) 974
2005-06	21,078	16,289	4,295	434	21,018	(+) 4,789	(+) 60
2006-07	26,106	19,252	4,809	313	24,374	(+) 6,854	(+) 1,732
2007-08	32,563	23,185	6,555	288	30,028	(+) 9,378	(+) 2,535
2008-09	33,562	28,072	5,900	340	34,312	(+) 5,490	(-) 750

From 2005-06 onwards, the non-debt receipts was higher than the primary expenditure resulting in a primary surplus. In the current year however, the non-debt receipts fell short of the primary expenditure. If this trend continues, debt sustainability will be in serious jeopardy as ideally incremental non-debt receipts every year should cover not only primary expenditure but also incremental interest burden.

1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. Table 1.22 presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table 1.22: Change in revenue receipts and correction of deficit

(Per cent of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	ACTUAL
Revenue Receipts (a to d)	17.2	18.1	18.7	17.4
a. State's Own Tax Revenue	7.8	7.8	8.3	7.8
b. State's Own Non- tax Revenue	2.3	2.4	2.0	2.0
c. State's Share in Central Taxes and Duties	4.5	5.0	5.6	4.7
d. Grants-in-Aid	2.6	2.9	2.8	2.9
Revenue Expenditure	16.8	17.1	18.1	17.8
Revenue Deficit (-)/Surplus (+)	(+) 0.4	(+) 1.0	0.6	(-) 0.4
Fiscal Deficit (-)/Surplus (+)	(-) 2.7	(-) 2.0	(-) 3.0	(-) 3.6

Rajasthan was one of the first few States in the country to enact FRBM Legislature (see Box 1.2 at page 4 and Appendix 1.1). In recent years, the state had exceeded targets as far as reducing revenue deficit to 'zero' by 2009-10 was concerned by achieving continued revenue surplus in 2006-07 and 2007-08. In the current year, however, the excess of revenue expenditure over revenue receipts (as explained in para 1.1 and chart 1.1) led to a slippage and as against revenue surplus of 0.6 *per cent* of GSDP envisaged in the budget there was a revenue deficit of 0.4 *per cent* of GSDP. Achieving the target of zero revenue deficit by 2009-10 would require pruning down of unproductive expenditure and improved revenue buoyancy. The fiscal deficit which was targeted to be 3 *per cent* of GSDP in the BE also slipped to 3.6 *per cent* of GSDP. In the light of overall slow down in the economy, the GoI had allowed States to increase their fiscal deficit to as much as 3.5 *per cent* of their GSDP and available amendments were to be made to the State FRBM Acts.

1.10 Conclusions and Recommendations

During the current year the revenue account decreased by Rs 2,480 crore as the growth of revenue receipts was 9 *per cent* while growth of revenue expenditure was 18 *per cent* over the previous year. The tax revenue and non-tax revenue receipts exceeded normative assessments made by TFC by 2.2 *per cent* and by 56.7 *per cent* respectively.

The non-plan revenue expenditure (NPRE) increased by 19 *per cent* over the previous year. The NPRE exceeded the normative assessment made by TFC, assessment made by Government in its FCP and MTFPS by 32.7 *per cent*, 17.5 *per cent* and 11.8 *per cent* respectively. The PRE decreased by 14.2 percentage points of the projected Budget estimates (26.2 *per cent*) but increase by 12 *per cent* over the previous year.

The capital expenditure decreased by 10 *per cent* over the previous year and was six *per cent* lower than projected in MTFPS.

The GoI directly transferred Rs 10,704 crore to the State Implementing Agencies during the year and it increased by Rs 5,900 crore (123 *per cent*) over the previous year.

The ratio of revenue deficit to revenue receipts and fiscal deficit to GSDP in 2008-09 exceeded normative assessment made by TFC by 2.47 and 0.6 percentage points respectively.

The expenditure on salary and wages at 47 *per cent* of revenue expenditure net of interest and pension payments is higher than the norm of 35 *per cent* recommended by TFC. Pension payments exceeded the normative assessment made by TFC by 68 *per cent*. The ratio of salaries, interest payments, pensions and subsidies to revenue receipts an increase of four percentage points over the previous year.

The ratio of fiscal liabilities to GSDP at 44 *per cent* was higher than the norms of 30 *per cent* recommended by the TFC for terminal year (2009-10).

As of 31 March 2009, there were 579 incomplete projects in which Rs 4,759 crore were blocked.

Though the development expenditure and the expenditure on social Sector increased over the previous year, the per capita development expenditure was lower than the national average, and therefore, need higher fiscal priority.

During 2008-09, only 3.25 *per cent* of loan were repaid by institutions/ organizations, and Rs 89 crore of loans was not repaid for the last six or more years.

In view of the heavy losses of some of the undertakings, the Government should review their working so as to wipe out their losses in the short run and to make them self-sustaining in medium to long term.

Return to fiscal correction: Rajasthan is one of the earliest of States to have passed the Fiscal Responsibility and Budget Management Act. Although there was a slippage in 2008-09 in achieving the deficit targets, this could be attributed largely to the slump in the economy (which impacted revenue receipts) as well as the Sixth Pay Commission Award (which increased committed expenditure). However, the State has the reasonable prospect of achieving the targets set out in the FRBM Act of 2005 provided an effort is made to increase tax compliance, reduce tax administration costs, make efforts to collect revenue arrears (para 1.3.3) and prune unproductive expenditure so that deficits are contained to the levels envisaged in the Act. Ensuring that the Government of India releases all grants due to the State by timely action on all conditionalities, that are pre-requisites to the release will also increase the total receipts of the State (Para 1.4.4).

Greater priority to capital expenditure: The State may consider enhancing the priority it gives to capital expenditure as a proportion of Aggregate Expenditure as this ratio is lower for Rajasthan than the All States Average (Table 1.8).

Enhancing fiscal capacity: As indicated in Table 1.8, the per capita development expenditure in Rajasthan is much lower than the national average even though the State is spending adequate amounts compared to the rest of the country. Further analysis may be required by the State Government to see whether the capacity of the State to utilize expenditure for developmental and social outcomes can be improved by better design of schemes, reducing administration costs, timely implementation, careful monitoring etc. Cost and time overruns of incomplete projects (para 1.6.2) will have to be reduced so that people of Rajasthan benefit from these sunk costs.

Review of Government investments: The average return on Rajasthan Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.2 to 0.5 *per cent* in the past three years while the Government paid an average interest of 7.7 to 8.3 *per cent* on this investment (Para 1.6.3). It would be advisable for the State Government to ensure better value for money in investments, otherwise high cost borrowed funds will continue to be invested in projects with low financial return. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification on why high cost borrowings should be channeled there. It would also be prudent to review the working of State public sector undertakings which are incurring huge losses (Para 1.6.4) and work out either a revival strategy (for those that are strategic in nature and can be made viable) or closed down (if they are not likely to be viable given current market conditions).

Prudent cash management: The cost of holding surplus cash balances is high. In 2008-09, the interest received on investment of cash balances in RBI Investment in Treasury Bills and Auction Treasury Bills was only 3.8 *per cent* while the Government borrowed on an average at 7.7 *per cent* (Para 1.6.6). Proper debt management through advance planning could reduce the need for the State government to hold large cash surpluses. Ways and Means facility of RBI can also be judiciously resorted to as long as the State does not avail of overdraft facility.

Debt sustainability: The Government of Rajasthan should ideally keep the debt-GSDP ratio stable by ensuring that the FRBM principle that total outstanding debt (excluding public account and risk weighted outstanding guarantees) should not exceed twice the estimated receipts in the Consolidated Fund of the State at the close of the financial year is followed. Borrowed funds should be used as far as possible only to fund capital expenditure and revenue expenditure should be met from revenue receipts. Efforts should be made to return to the state of primary surpluses and zero revenue deficit as soon as possible. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

Oversight of funds transferred directly from the GoI to the State implementing agencies: As long as these funds remain outside the State budget, there is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State implementing agencies but are funded directly by the GoI. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General.