

CHAPTER I

FINANCES OF THE STATE GOVERNMENT



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1.1 Introduction

Bihar is a landlocked State, bounded by West Bengal in the east, Uttar Pradesh in the west, Jharkhand in the south and a long international border with Nepal in the north. It is the twelfth largest State in India in terms of geographical size (94163 sq. km) and the third largest by population. In terms of the Bihar Re-organisation Act 2000 (No.30 of 2000), the composite State of Bihar was re-organised and a new State known as Jharkhand comprising 18 districts¹ of the composite State of Bihar was formed w.e.f. 15th November 2000. Presently, the State of Bihar comprises 38 districts². Consequent to this bifurcation, the apportionment of assets and liabilities of the erstwhile State of Bihar, immediately prior to the appointed day as also other financial adjustment were to be undertaken in each case with reference to the provisions of the Bihar Re-organisation Act, 2000. However, as indicated in Appendix XII of the Finance Accounts, 2009-10, nine items including the Capital Account of the Social Sector and Economic Services and Loans and Advances were pending adjustment as on 31st March 2010.

The economy of Bihar is primarily agrarian and the State does not possess any significant mineral wealth. As indicated in **Appendix 1.1**, Bihar has higher poverty levels (41.4 *per cent*) as compared to the All India Average (27.5 *per cent*). The density of its population (880 persons per sq. km) as per the 2001 census was higher than the all India density (325 persons per sq. km). The State has shown lower economic growth in the past decade as the Compound Annual Growth Rate (CAGR) of its Gross State Domestic Product (GSDP) for the period 2000-01 to 2008-09 has been 12.08 *per cent* as compared to 12.54 *per cent* in other General Category States. During this period, its population has grown by 15.31 *per cent* against 13.42 *per cent* in other General Category States, indicating that the per capita income growth in Bihar has been much lower than that of the General Category States in the current decade.

1.1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2009-10) vis-à-vis the previous year. The details of receipts and disbursements and the overall fiscal position during the current year are annexed at **Appendix 1.2**.

¹ Bokaro, Chatra, Deoghar, Dhanbad, Dumka, Garhwa, Giridih, Godda, Gumla, Hazaribagh, Kodarma, Lohardaga, Pakur, Palamu, Ranchi, Sahebganj, Singhbhum (east) and Singhbhum (west).

² Araria, Arwal, Aurangabad, Banka, Begusarai, Bhagalpur, Bhojpur, Buxar, Darbhanga, East Champaran, Gaya, Gopalganj, Jamui, Jehanabad, Kaimur, Katihar, Khagaria, Kishanganj, Lakhisarai, Madhepura, Madhubani, Munger, Muzaffarpur, Nalanda, Nawada, Patna, Purnea, Rohtas, Saharsa, Samastipur, Saran, Sheikhpura, Sheohar, Sitamarhi, Siwan, Supaul, Vaishali and West Champaran.

Table 1.1: Summary of Current Year's Fiscal Operations

(₹ in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-A: Revenue					Non-Plan	Plan	Total
32980.69	Revenue receipts	35526.83	28511.58	Revenue expenditure	24145.38	8438.79	32584.17
6172.74	Tax revenue	8089.67	10529.51	General services	11850.99	351.36	12202.35
1153.32	Non-tax revenue	1670.42	12252.10	Social services	8046.11	5140.30	13186.41
17692.51	Share of Union Taxes/ Duties	18202.58	5726.01	Economic services	4140.82	2947.13	7087.95
7962.12	Grants from Government of India	7564.16	3.96	Grants-in-aid and Contributions	107.46	0.00	107.46
Section-B: Capital							
0.00	Misc. Capital Receipts	0.00	6436.35	Capital Outlay	63.97	7268.12	7332.09
11.32	Recoveries of Loans and Advances	13.20	551.05	Loans and Advances disbursed	409.51	487.27	896.78
5927.89	Public Debt receipts*	6134.39	1682.28	Repayment of Public Debt*	**	**	1982.99
0.00	Contingency Fund	0.00	0.00	Contingency Fund	**	**	0.00
16941.02	Public Account receipts	15303.39	17310.63	Public Account disbursements	**	**	15447.74
2188.06	Opening Cash Balance	3557.09	3557.09	Closing Cash Balance	*	*	2291.13
58048.98	Total	60534.90	58048.98	Total			60534.90

(Source: Finance Accounts for the year 2008-09 and 2009-10) of Government of Bihar.

*Excluding net transactions under ways and means advances and overdraft.

**Bifurcation of Plan and Non-Plan is not maintained.

The significant changes during 2009-10 as compared to the previous year are given below:

- Revenue receipts of the State increased by ₹ 2546 crore(eight *per cent*) over the previous year, mainly due to increase in the State's own tax revenue (₹ 1917 crore), non-tax revenue (₹ 517 crore), and share of Union taxes (₹ 510 crore) which was offset by less receipt of ₹ 398 crore as Grants from Government of India.
- The State's tax revenue increased from ₹ 6173 crore in 2008-09 to ₹ 8090 crore in 2009-10 (31 *per cent*). The percentage of tax receipts to revenue receipts also increased from 19 *per cent* of 2008-09 to 23 *per cent* during the year.
- Revenue expenditure increased by ₹ 4073 crore over the previous year, mainly due to increase in expenditure on General Services (₹ 1673 crore), Social Services (₹ 934 crore) Economic Services (₹ 1362 crore) and Grants-in-aid and contributions (₹ 104 crore).
- In terms of Plan and Non-Plan expenditure, the Non-Plan expenditure (revenue and capital) increased by ₹ 2934 crore and Plan expenditure by ₹ 2380 crore during the year. During the current year, 87.05 *per cent* of the

total expenditure was made from revenue receipts and the remaining from capital receipts and borrowed funds.

- While the expenditure on Social Services registered an increase of eight *per cent*, the expenditure on Economic Services increased significantly by 24 *per cent*.
- Capital expenditure on asset creation increased by ₹ 896 crore (14 *per cent*) over the previous year.
- Public Account receipts and disbursements decreased by ₹ 1638 crore (10 *per cent*) and ₹ 1863 crore (11 *per cent*) respectively, resulting in a net decrease in the Public Account by ₹ 144 crore during the year.
- The net impact of these transactions led to decrease of ₹ 1266 crore in the cash balance at the end of the year over the previous year.

1.1.2 Review of the fiscal situation

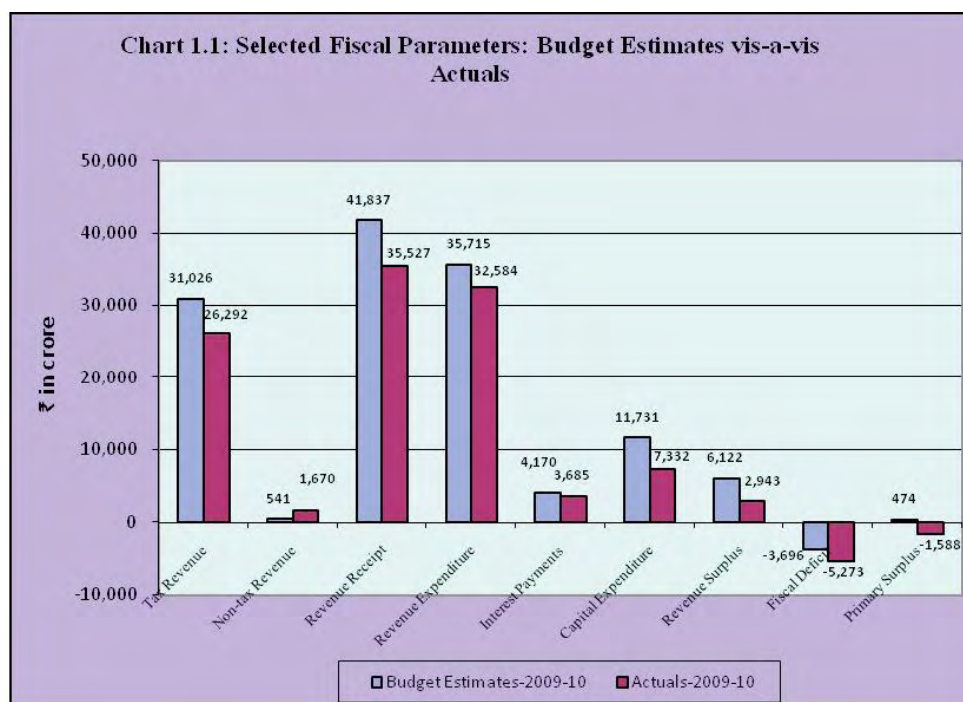
In order to comply with the recommendations of the Twelfth Finance Commission (TFC), the Bihar Fiscal Responsibility and Budget Management (FRBM) Act, 2006 required the State Government to eliminate its revenue deficit by the end of the financial year 2008-09 and to reduce the fiscal deficit to not more than three *per cent* of the GSDP by 2008-09. These targets have been achieved. However, the recommended norm for fiscal deficit has since increased to 3.5 *per cent* of GSDP for the years 2008-10.

Audit scrutiny of the Finance Accounts of the State indicated that the TFC recommendation for eliminating the revenue deficit had been achieved and the State had revenue surplus during 2005-10. The fiscal deficit for 2009-10 stood at 3.40 *per cent*, which was well within the revised norms recommended by TFC.

1.1.3 Budget Analysis

The budget papers presented by the State Government are important tools in providing the projections or estimations of revenue and expenditure for the relevant fiscal year. Hence, it is important that for sound and effective fiscal management, these papers should present an accurate estimation of the revenue receipts and expenditure. Similarly, deviations from the budget estimates indicate instances of non-optimisation and consequent non-attainment of the desired fiscal objectives. Such deviations may occur due to a variety of reasons falling either within or outside the control of the State Government.

Chart 1.1 presents the budget estimates and the actuals expenditure of selected fiscal parameters for the financial year 2009-10.



The data in Chart 1.1 reveals that except for non-tax revenue, the actuals were far below the estimates, indicating thereby that either the estimates were unrealistic or adequate efforts were not made by the Government to achieve the targets fixed for the financial year. It also indicated insufficient Government efforts to utilize the funds appropriated for expenditure, in spite of its availability. It was also seen that:

- Non-tax receipts surpassed the estimates by 309 per cent. This was mainly under General Services- Miscellaneous-General Secretariat-Other Services and Interest Payment where the actual receipts were ₹ 807 crore and ₹ 355 crore against the estimates of ₹ 159 crore and ₹ 54 crore respectively.
- Revenue receipts and revenue expenditure were lower than the estimates by ₹ 6310 crore and ₹ 3131 crore respectively. Capital expenditure fell short of the estimate by ₹ 4399 crore (37 per cent), indicating difficulties in fund absorption for capital works.
- Revenue surplus and primary surplus³ were below the budget estimate. Revenue surplus was short by ₹ 3179 crore (52 per cent) against the budget estimate; fiscal deficit increased by ₹ 1577 crore (43 per cent) whereas the primary surplus decreased by ₹ 2062 crore (435 per cent) against the estimate, resulting in a primary deficit of ₹ 1588 crore.

1.2 Resources of the State

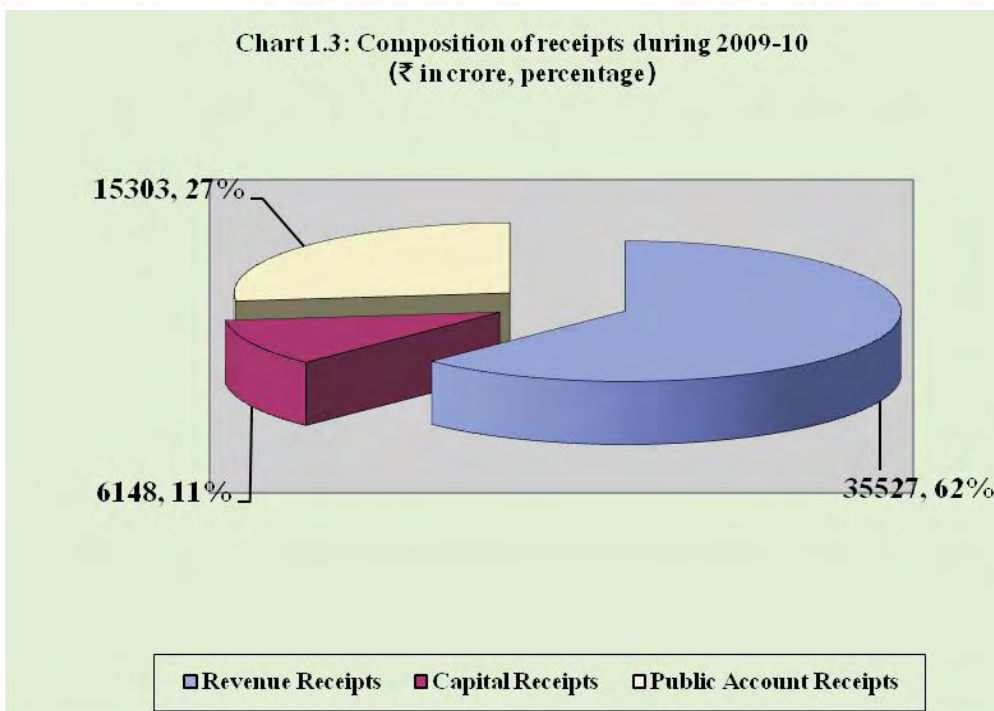
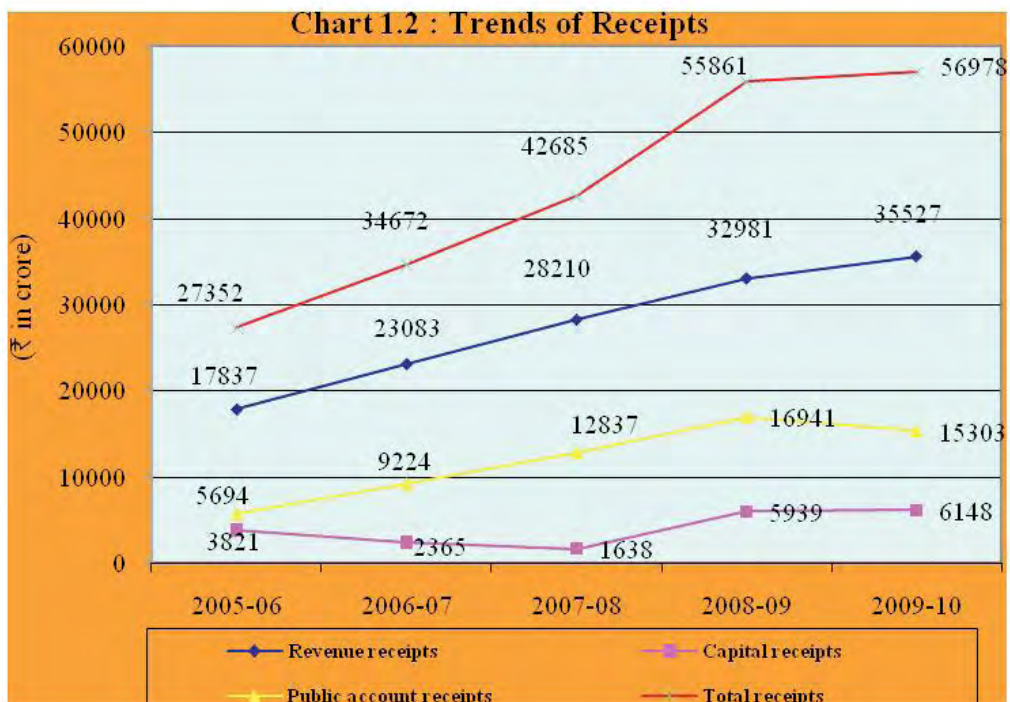
1.2.1 Resources of the State as per Annual Finance Accounts

The revenue resources of the State Government fall under two categories- capital and revenue. Capital receipts comprise proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans,

³ Primary surplus = Fiscal deficit/surplus – Interest Payment

borrowings from financial institutions or commercial banks), loans and advances from the Government of India (GOI) as well as accruals from the Public Account. On the other hand, revenue receipts consist of the State Government's own-tax and non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the GOI.

Chart 1.2 depicts the trend of receipts during 2005-10 and **Chart 1.3** indicates the composition of these receipts during 2009-10.



A perusal of **Chart Nos 1.2** and **1.3** reveal that:

- The total resources of the State increased by ₹ 1117 crore (two *per cent*) over the previous year. This was mainly due to the increase of ₹ 2546 crore (eight *per cent*) in revenue receipts and ₹ 209 crore (four *per cent*) in capital receipts, though there was a reduction of ₹ 1638 crore (10 *per cent*) in the Public Accounts receipts.
- An increase in Loans and Advances from the Central Government by ₹ 614 crore over the previous year was offset by a decrease of ₹ 408 crore in internal debt during the year, resulting in the increase of Public Debt receipts by ₹ 207 crore (three *per cent*) over the previous year.

1.2.2 Funds transferred to State implementing agencies outside the State budget

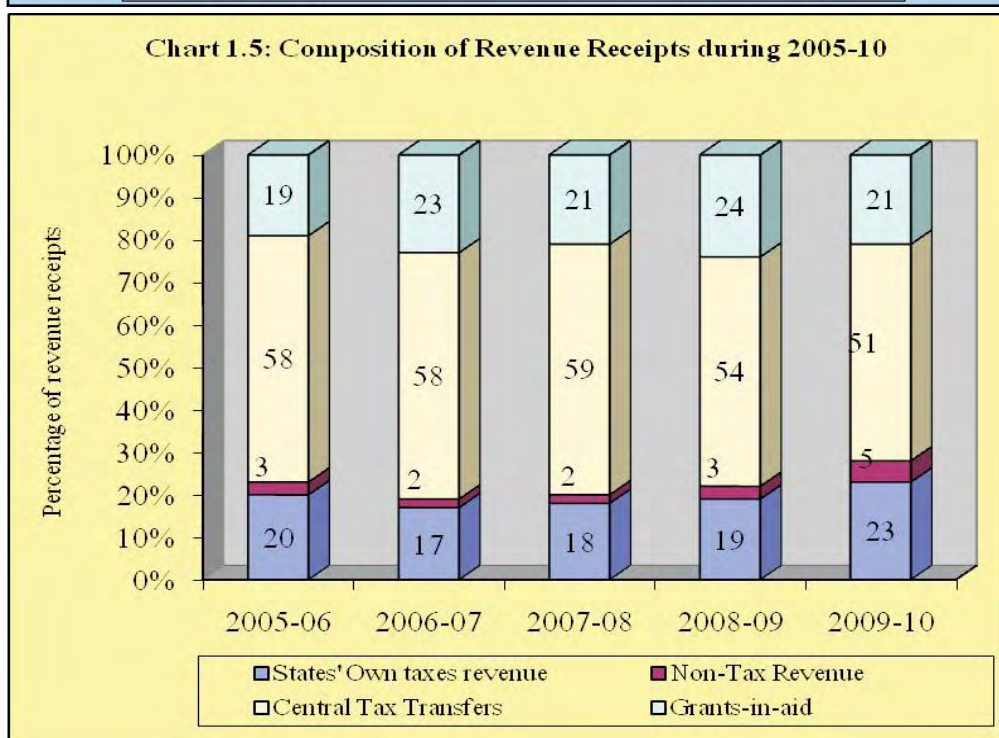
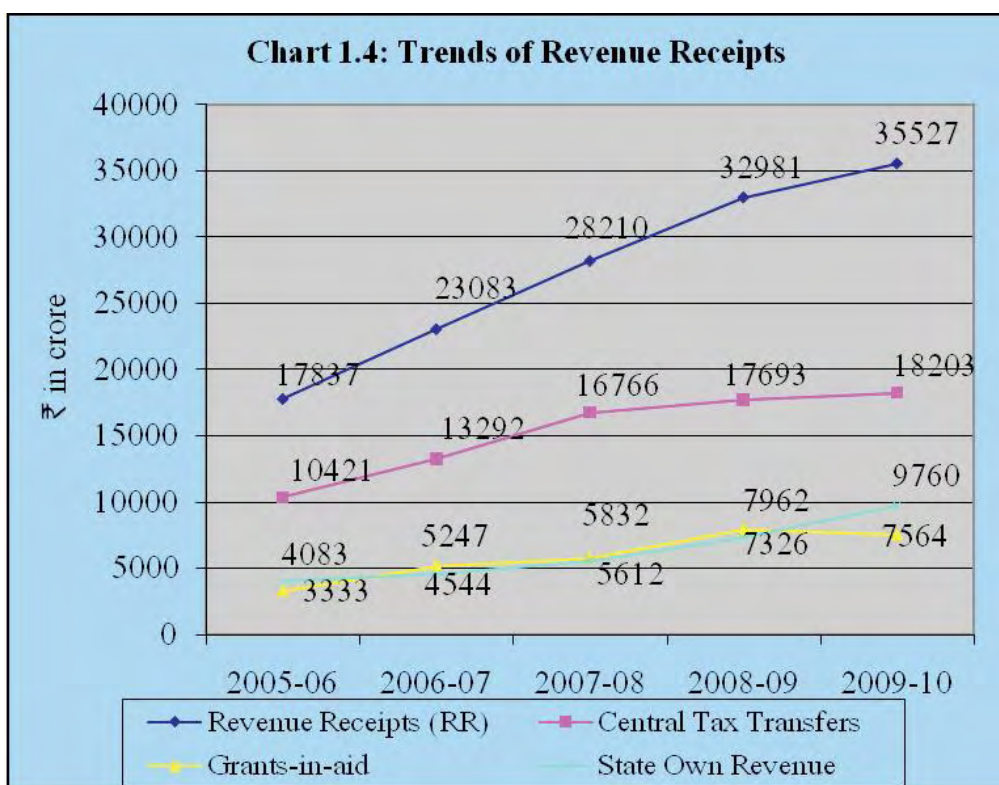
During the year, the Central Government has transferred a sizeable quantum of funds directly to the State implementing agencies⁴ for the implementation of various critical social and economic sector schemes and programmes. Since these funds are not routed through the State Budget or its Treasury System, the Annual Finance Accounts do not capture their flow, resulting in the State's receipts, expenditure and fiscal variables and parameters derived from them being underestimated. A holistic picture of the aggregate resources including the funds directly transferred to State implementing agencies available to the State Government is presented in **Appendix 1.3**.

As is evident from **Appendix 1.3**, Central fund receipts bypassing the State budget were ₹ 5182.20 crore as against receipts of ₹ 6435 crore during the previous year. The percentage of Central funds (receipt and expenditure) bypassing the State budget decreased in the current year to 12.43 *per cent* and 12.11 *per cent* from 16.53 *per cent* and 17.31 *per cent* respectively in the previous year 2008-09.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the State Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from the Government of India. The trends and composition of revenue receipts over the period 2005-10 are presented in **Appendix 1.4** and in **Charts 1.4** and **1.5** respectively.

⁴ State implementing agencies include any organisation/institution including non-Governmental organisation which is authorised by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State implementation society for Sarva Shiksha Abhiyan, State Health Mission for National Rural Health Mission etc.



The factors responsible for increase in the States' own tax/non-tax revenue as indicated in **Charts 1.4 and 1.5** were:

- The increase in the State's own tax revenue by ₹ 1917 crore was mainly due to the increase in taxes on sales, trade tax etc. by ₹ 823 crore (27 per cent), State excise by ₹ 403 crore (59 per cent), taxes on goods

and passengers by ₹ 334 crore (26 per cent) and stamp duty and registration fees by ₹ 282 crore (39 per cent) over the previous year.

- Increase in non-tax revenue by ₹ 517 crore was mainly due to increased receipts under miscellaneous general services by ₹ 384 crore (100 per cent), non-ferrous mining and metallurgical industries by ₹ 75 crore (31 per cent) and interest by ₹ 49 crore (16 per cent), over the previous year.

The trends of revenue receipts relative to GSDP are presented in **Table 1.2**.

Table 1.2: Trends in Revenue Receipts relative to GSDP

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (₹ in crore)	17837	23083	28210	32981	35527
Rate of growth of RR (per cent)	13.51	29.41	22.21	16.91	7.72
R R/GSDP (per cent)	22.47	23.18	24.61	23.14	22.91
Buoyancy Ratios⁵					
Revenue Buoyancy w.r.t GSDP	1.74	1.16	1.47	0.70	0.88
State's own tax buoyancy w.r.t GSDP	0.82	0.52	1.73	0.88	3.53

(Source: Finance Accounts, Government of Bihar).

From **Table 1.2**, it is evident that the buoyancy of Revenue Receipts with reference to GSDP decreased from 1.74 per cent in 2005-06 to 0.88 per cent in 2009-10, even after an increase of 0.18 per cent over the previous year.

The State's own tax buoyancy w.r.t. GSDP oscillated between 0.52 to 1.73 per cent during the period 2005-09 but increased to 3.53 per cent during 2009-10. The main reasons for this increase were better tax compliance, stronger enforcement measures and steps taken by the State Government to identify and plug the gaps leading to revenue loss.

1.3.1 State's Own Resources

Against the normative projections made by TFC, although the non-tax revenue exceeded by ₹ 52 crore, the projection (₹ 1618 crore) made in TFC, the State's own tax realization against the TFC projections of ₹ 8240 crore was ₹ 8090 crore i.e. a shortfall of ₹ 150 crore. During the award period (2005-10), the State's own tax revenue realisation was merely ₹ 26943 crore against the projected ₹ 32648 crore and the non-tax revenue was ₹ 4382 crore against the projected ₹ 5890 crore. Consequently, the State's own revenue realisation fell short by ₹ 7213 crore against the TFC projections, though it exceeded the State's own projection made in its Fiscal Correction Path (FCP).

⁵ 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, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one per cent.

1.3.2 Cost of collection

Table 1.3 indicates the gross collection of major tax revenue receipts; expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2008-09 to 2009-10 along with the relevant all India average for 2008-09.

Table 1.3: Cost of collection

(₹ in crore)

Sl. no.	Head of revenue	Year	Gross collection	Exp- enditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 2008-09
1.	Commercial Taxes*	2008-09	4,377.92	46.67	1.07	0.88
		2009-10	5,541.00	48.84	0.88	
2.	State excise	2008-09	679.14	24.15	3.56	3.66
		2009-10	1,081.68	44.02	4.07	
3.	Stamp duty and registration fees	2008-09	716.19	37.68	5.26	2.77
		2009-10	997.90	45.90	4.60	
4.	Taxes on vehicles	2008-09	297.74	6.95	2.33	2.93
		2009-10	345.13	10.41	3.02	

The above table indicates that the State Government incurred more expenditure on collection of all taxes when compared to the all India average percentage for the year 2008-09, except in the case of commercial taxes.

1.3.3 Variations between the budget estimates and actual collections

There were wide variations in tax and non-tax revenue between the budget estimates and the actual amounts realized, indicating thereby that the preparation of the budget estimates was done in a routine fashion and without any realistic considerations. The percentage increase or decrease in budget estimates vis-a-vis the actual receipts is shown in **Appendix 1.5**.

The position of refund cases pending at the beginning and end of the financial year 2009-10 is indicated in **Table 1.4**.

* Gross collection by the Commercial Tax Department includes Sales tax/Value Added Tax (VAT), taxes on goods and passengers - Tax on entry of goods into local areas, Taxes and duties on electricity and Other taxes and duties on commodities and services.

Table 1.4: Position of pending Refund cases

(₹ in crore)

Sl. no.	Particulars	Sales tax		Taxes on entry of goods into local areas		Entertainment tax	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the end of the year 2008-09	2030	48.18	6	0.50	5	Negligible*
2.	Claims outstanding at the beginning of the year 2009-10	1803	45.87	1	0.29	Nil	Nil
3.	Claims received during the year	475	67.56	100	1.80	4	0.03
4.	Refunds made during the year	165	19.85	3	1.12	3	0.01
5.	Balance outstanding at the end of the year	2113	93.58	98	0.97	1	0.02

(Source: Commercial Taxes Department, Government of Bihar). * ₹ 0.12 lakh

It was also observed that the opening balance in respect of sales tax, taxes on the entry of goods into local areas and entertainment tax as reported by the Commercial Taxes Department differed from the closing balance reported by the department and included in the last year's Audit Report (Revenue Receipts).

1.3.4 Arrears of Revenue

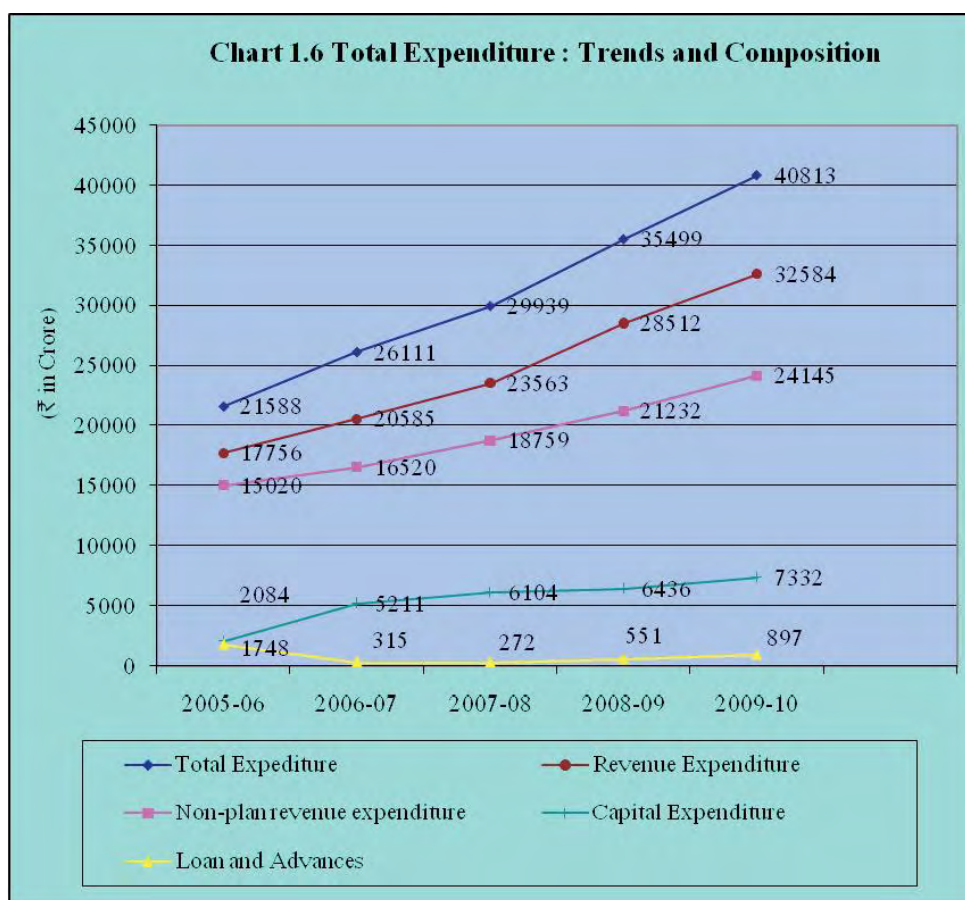
The arrears of revenue as on 31 March 2010 in respect of the principal heads of revenue (as reported by seven departments) was ₹ 1922.69 crore, of which ₹ 396.59 crore was outstanding for more than five years (**Appendix 1.6**). The position of arrears of revenue at the end of 31st March 2010 in respect of other departments (Land Revenue, State Excise etc.) was not furnished (October 2010), despite requests made between May and August 2010.

1.4 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since the major expenditure responsibilities are entrusted with them. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards the development and social sectors.

1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the expenditure trends during 2005-10. Its composition in terms of 'economic classification' and 'expenditure by activities', is depicted in **Charts 1.7** and **1.8** respectively.



- A perusal of **Chart 1.6** reveals that the total expenditure of the State increased from ₹ 21588 crore in 2005-06 to ₹ 40813 crore in 2009-10. For the current year, the expenditure increase was ₹ 5314 crore over the previous year, of which the revenue expenditure was ₹ 4073 crore (14 per cent) and capital expenditure including disbursement of loans and advances was ₹ 1242 crore (18 per cent).
- In recent years, Bihar had been experiencing high growth of GSDP. Hence, the buoyancy of the total expenditure in relation to GSDP fell to 0.59 in the current year.
- The Non-Plan Revenue Expenditure (NPRE) of ₹ 24145 crore exceeded not only the normative projections made by TFC (₹ 19989 crore) by ₹ 4156 crore (21 per cent) but also the projection made in FCP (₹ 22357 crore) by ₹ 1788 crore (eight per cent). However, it fell short by ₹ 3874 crore (14 per cent) against the budget estimate of ₹ 28019 crore during the current year.

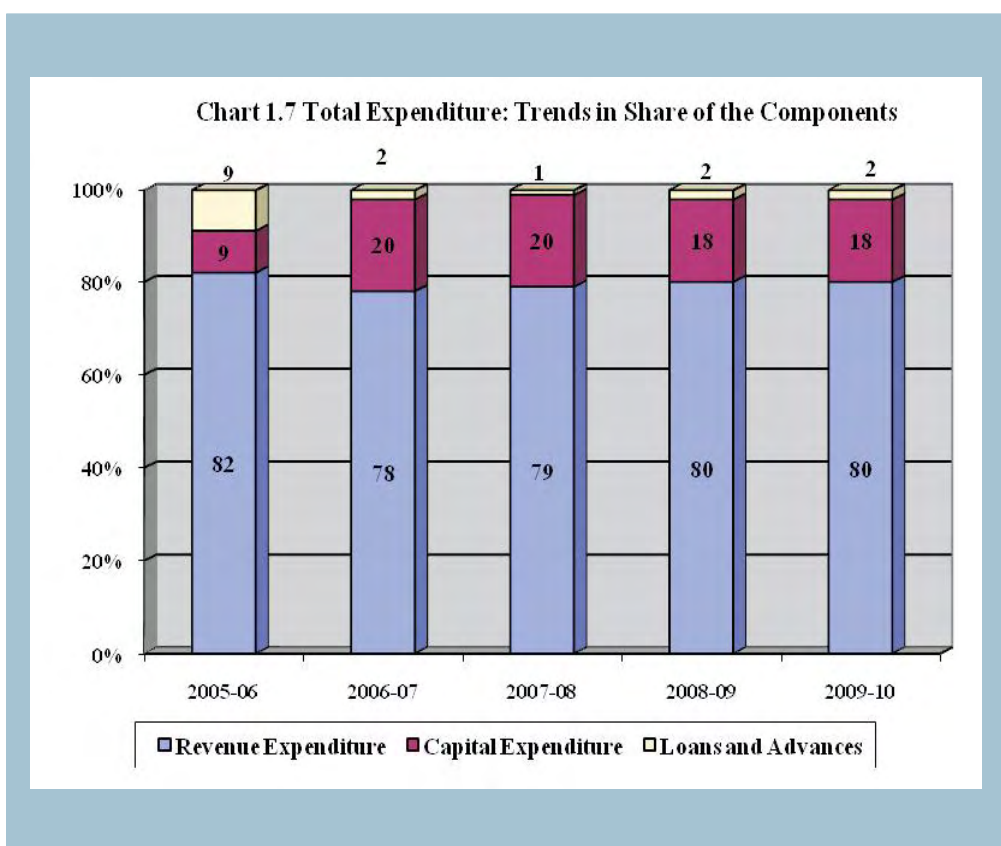
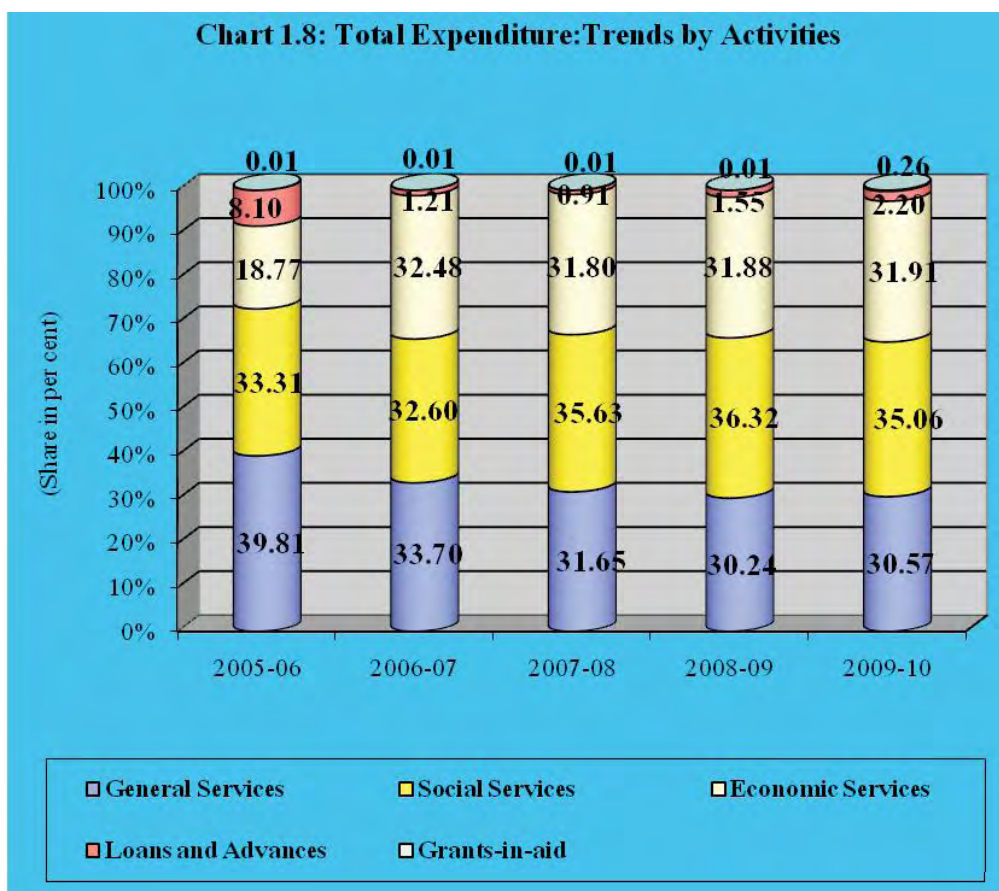


Chart 1.7 and audit scrutiny of records revealed the following:

- The major increase in revenue expenditure was in Education, Sports, Art and Culture (₹ 710 crore), Rural Development (₹ 571 crore), Agriculture and Allied Activities (₹ 231 crore), Transport (₹ 197 crore), Health and Family Welfare (₹ 195 crore), Irrigation and Flood Control (₹ 193 crore) and Welfare of Scheduled Castes, Scheduled Tribes and other Backward Classes (₹ 172 crore) apart from the increase of ₹ 1673 crore in General Services.
- The major increase in capital expenditure was under Transport (₹ 595 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 278 crore), Irrigation and Flood Control (₹ 208 crore) and Education, Sports, Art and Culture (₹ 157 crore).
- The share of revenue and capital expenditure to the total expenditure was 80 per cent and 20 per cent respectively which was the same for the previous year. Growth in revenue expenditure in the current year was higher than the growth in GSDP.



Broadly, an activity based expenditure categorization would include expenditure on General Services including interest payments, Social and Economic Services, Grants-in-aid and Loans and advances. An examination of the relative movement of expenditure on these components as indicated in **Chart 1.8** revealed that while the share of Social Services increased from 33 *per cent* in 2005-06 to 36 *per cent* in 2007-08, it decreased to 35 *per cent* during 2009-10.

The share of Economic Services in the total expenditure increased from 19 *per cent* (2005-06) to 32 *per cent* in 2006-07 and remained stagnant thereafter up to 2009-10. The disbursement of loans and advances decreased from eight to two *per cent* during these years. While the relative share of grants-in-aid increased from 0.01 *per cent* to 0.3 *per cent* during the year, the share of General Services decreased from 40 *per cent* of the total expenditure (2005-06) to 30 *per cent* during 2008-09, but increased to 31 *per cent* during 2009-10.

1.4.2 Committed Expenditure

The committed expenditure of the State Government on the revenue account consists mainly of interest payments, salaries and wages, pensions and subsidies. **Table 1.5** presents the trends in the expenditure on these components during 2005-10.

Table-1.5: Trends in Committed Expenditure

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Salaries & Wages of which	5783.35 (32.42)	6061.21 (26.06)	6469.53 (22.93)	7545.61 (22.88)	9654	9658.74 (27.18)
<i>Under Non-Plan Head</i>	5152.79	5538.57	5914.81	6996	NA	9001.42
<i>Under Plan Head*</i>	630.56	477.64	554.72	550	NA	657.32
Interest Payments	3649 (20.46)	3416 (14.80)	3707 (13.14)	3753 (11.38)	4170	3685.48 (10.37)
Expenditure on Pensions	2456 (13.77)	2497 (10.82)	2789 (9.89)	3479.03 (10.55)	3782	4318.70 (12.16)
Subsidies	-	-	-	861.58 (2.61)	-	944.39 (2.66)
Figures in the parentheses indicate percentage to Revenue Receipts *Plan Head also includes the salaries and wages paid under the Centrally Sponsored Schemes.						

(Source: Finance Accounts and Budget for the year 2009-10, Government of Bihar)

Table 1.5 and analysis of data in Finance Accounts/TFC recommendations indicated the following:

- The total of the salary component under the Non-Plan head compared to Non-Plan revenue expenditure, net of interest payments and pensions was 55.77 per cent. This was significantly more than the 35 per cent recommended by the TFC.
- Though the interest payments for 2009-10 were within the projected expenditure of ₹ 5324 crore, the pension payments at ₹ 4318.70 crore were higher than the projection of ₹ 3794 crore in the Fiscal Correction Path.
- Out of subsidies amounting to ₹ 944.39 crore disbursed, ₹ 840 crore was paid to Bihar State Electricity Board as a resource gap. This figure was higher by ₹ 120 crore compared to the subsidy paid in 2008-09.
- Increase in salaries was mainly attributable to the implementation of the recommendations of the VIth Pay Commission from January 2010.

1.5 Quality of Expenditure

Any expenditure incurred towards improving the quality of life, whether to improve infrastructure, education and health care among others in the State generally reflects positively on the quality of its expenditure. This expenditure quality paradigm basically involves three components, viz., adequacy of the expenditure, efficiency of usage and the effectiveness of the expenditure in attaining its intended objectives. Audit assessment of the quality expenditure on the above basis revealed as follows:

1.5.1 Adequacy of Public Expenditure

As GSDP grows, the State Government has the ability to increase the own tax and non-tax base/rates, which could in turn provide greater funds for the annual

budget. Hence, it would be pertinent to compare the level of public expenditure in Bihar with that of other general category States for years 2005-06 to 2009-10. Such a comparison revealed that Bihar has spent a higher proportion of GSDP on aggregate expenditure in both the years under consideration viz-a-viz. 2005-06 (the first year of the 12th Finance Commission Award period) and 2009-10 (the terminal year of the Award period). Developmental expenditure, which comprises economic sector expenditure and social sector expenditure, has the potential to enhance the human capital formation of the State which will facilitate better growth in future. The responsibility for expenditure relating to the social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services such as education and health. However, low levels of spending in any of these critical sectors by the State Government could be the result of low fiscal priority attached by the State Government to these sectors or on account of the low fiscal capacity of the State Government or a combination of both.

Table-1.6: Fiscal Priority and Fiscal capacity of the State in 2005-06 and 2009-10
(In per cent)

Fiscal Priority by the State	AE/ GSDP	DE/ AE	SSE/ AE	CE/ AE	Education/ AE	Health/ AE
General Category States Average (Ratio) 2005-06	17.75	61.76	30.76	13.97	14.95	4.05
Bihar State's Average (Ratio) 2005-06	27.20	60.15	33.31	9.65	20.49	4.70
General Category States Average (Ratio) 2009-10	18.24	66.05	35.76	14.85	16.21	4.28
Bihar State's Average (Ratio) 2009-10	26.32	69.15	35.06	17.96	18.99	3.70
AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure # Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed. Source: For GSDP, the information was collected from the State's Directorate of Economics and Statistics						

Table 1.6 shows the comparison of fiscal priority given to different categories of expenditure of the State in 2005-06 (the first year of the award period of TFC) and the current year 2009-10 (terminal year of the TFC's award period).

- In 2005-06 and 2009-10, the Government has given adequate fiscal priority to AE, DE and SSE as the ratios of AE/GSDP, DE/AE and CE/AE were higher than the General Category States' average. DE/AE ratio which was lower than the General Category States average in 2005-06 substantially increased in 2009-10. Similarly the priority given to Capital expenditure out of the aggregate expenditure of the State during 2005-06 was merely 9.65 per cent against General Category States' average of 13.97 per cent, but it substantially increased to 17.96 per cent in 2009-10 against General Category States' average of 14.85 per cent. The increased priority to capital expenditure could result in asset creation and quicker growth in Bihar provided the financial outlays translate into physical outcomes within the desired time frame.
- The State has given adequate priority to Social Sector Expenditure (SSE), Education Sector and Health Sector except for the Health Sector during the year 2009-10 where the State's average expenditure was merely 3.70 per cent against the General Category State's average of 4.28 per cent. It is, therefore, essential that the State Government gives greater fiscal priority

to the Social, Education and Health sectors, considering Bihar's relatively lower level of development in these sectors (**Appendix 1.1**).

1.5.2 Efficiency of Expenditure

Since the expenditure on 'developmental heads' has great significance for the social and economic development of the State, it is important that the State Governments adopt a conscious, priority-based and rational approach to public spending. Such an approach must give appropriate emphasis to the provisions of core public and merit goods⁶. This, in turn, would improve allocations for development expenditure⁷, particularly in view of the fiscal space created on account of the decline in debt servicing in recent years.

The efficiency of expenditure use is also reflected in the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure incurred on the operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would the quality of expenditure be.

Table 1.7 presents the trends of development expenditure relative to the aggregate expenditure of the State during 2005-10, whereas **Table 1.8** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected Social and Economic Services during 2008-09 and 2009-10.

Table-1.7: Development Expenditure relative to aggregate expenditure

(₹ in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
Development Expenditure (a to c)					
a. Development Revenue Expenditure	9229 (42.75)	11938 (45.72)	14306 (47.78)	17978 (50.64)	20274 (49.68)
b. Development Capital Expenditure	2012 (9.32)	5056 (19.36)	5881 (19.64)	6230 (17.55)	7058 (17.29)
c. Development Loans and Advances	1744 (8.08)	308 (1.18)	265 (0.89)	544 (1.53)	890 (2.18)

Figures in Parentheses indicate percentage of aggregate expenditure.

(Source: Finance Accounts, Government of Bihar)

⁶ *Core public goods* are goods 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 to 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.

⁷The 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.

Developmental revenue expenditure increased continuously from 43 per cent in 2005-06 to 51 per cent in 2008-09, but decreased to 50 per cent during 2009-10. Developmental capital expenditure also showed an increasing trend from nine per cent in 2005-06 to 20 per cent in 2007-08, but decreased to 17 per cent during 2009-10. Development expenditure on loans and advances decreased from eight per cent in 2005-06 to one per cent in 2006-08 and then increased to two per cent in 2008-09 and 2009-10.

Table 1.8: Efficiency of Expenditure use in Selected Social and Economic Services
(Percentage)

Social/Economic Infrastructure	2008-09		2009-10	
	Share of CE in TE	In RE, the share of	Share of CE in TE	In RE, the share of
		S & W		S & W
Social Services (SS)				
General Education	01	67.64	3.88	73.33
Health and Family Welfare	08	61.23	7.99	66.21
WS, Sanitation, & HUD	12	9.85	24.42	11.28
Total (SS)	05	32.46	7.85	38.67
Economic Services (ES)				
Agri & Allied Activities	01	20.42	0.07	26.19
Irrigation and Flood Control	62	58.61	60.05	68.80
Power & Energy	36	-	30.23	-
Transport	83	27.83	81.59	22.55
Total (ES)	52	21.27	49.08	22.87
Total (SS+ES)	28	28.89	28.18	33.14
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.				

(Source: Finance Accounts, Government of Bihar).

Table 1.8 indicates that in the Social Services sector, there has been an increase in the percentage of CE to TE. In view of the fact that Bihar is primarily an agrarian economy the decrease in CE in Agriculture & Allied Activities, Irrigation and Flood Control, Power and Energy and Transport is not a healthy sign. In the case of salaries and wages, except in the case of the transport sector, there has been an increase in the percentage of salary and wages in the revenue expenditure during 2009-10. This is mainly due to the implementation of the VIth Pay Commission award.

1.6 Analysis of Government Expenditure and Investments

The FRBM framework requires the State Government to keep its fiscal deficit (and borrowings) not only at low levels, but also to meet its capital expenditure and investment (including loans and advances) requirements. Further, the transition from a traditional rural agrarian society to a market based and resource intensive society requires the State Government to initiate measures that earn adequate returns on its investments, enable recovery of the cost of borrowed funds and to take requisite steps to infuse transparency in financial operations. In this section, the broad financial comparison and analysis of State Government investments and capital expenditures during the current year vis-à-vis the previous years are presented.

1.6.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31st March 2010 is given in **Table 1.9** Altogether, 288 schemes/projects (estimated cost ₹ 2433.34 crore) were due for completion up to March 2010, but were incomplete resulting in blocking of ₹ 940.81crore. In addition, in four completed, schemes/projects⁸ under the Water Resources Department, cost overruns to the extent of ₹ 2.67 crore above the original estimates were noticed.

Table 1.9: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department	No. of Incomplete Projects	Estimated cost	Cumulative actual expenditure as on 31.3.2010
Building Construction Department	8	66.29	30.21
Public Health Engineering Department	62	191.24	116.02
Road Construction Department	93	617.21	355.66
Rural Works Department	20	150.40	97.35
Water Resources Department	105	1408.20	341.57
Total	288	2433.34	940.81

(Source: Finance Accounts, Government of Bihar)

1.6.2 Investment and returns

As of 31 March 2010, the State Government had invested ₹ 856.18 crore in statutory corporations, rural banks, joint stock companies and co-operatives as indicated in **Table 1.10**.

Table-1.10: Return on Investment

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	805.64	821.10	828.68	832.18	856.18
Return (₹ in crore)	0.04	0.04	3.19	2.14	2.06
Return (per cent)	0.00	0.00	0.38	0.26	0.24
Average rate of interest on Government borrowing (per cent)	8.20	7.15	7.15	7.93	6.48
Difference between interest rate and return (per cent)	8.20	7.15	6.77	7.67	6.24

(Source: Finance Accounts, Government of Bihar)

Of the ₹ 856.18 crore invested by the State Government, ₹ 105.63 crore was invested in three statutory corporations, ₹ 374.17 crore in Government companies/rural banks, ₹ 3.88 crore in joint stock companies and ₹ 372.50 crore in

⁸

1. Extension of Embankment of Bagmati, Sitamarhi (18.31 crore) 20.19 crore
2. Restoration of Western Koshi Main Canal Nepal Portion Supaul (5.33 crore) 5.75 crore
3. Restoration of Western Koshi Main Canal Nepal portion ,Supaul (4.12 crore) 4.15 crore
4. Raising and strengthening of Left embankment of Budhi Gandak Muzaffarpur (6.17crore) 6.51crore

(Figures in bracket indicate estimated cost)

co-operative institutions/societies. Government invested ₹ 24.00 crore during the year out of which ₹ 23.00 crore was invested in Government companies/rural banks.

An analysis of the returns from these investments indicated a mere ₹ 0.04 crore per annum against investments between ₹ 805.64 crore and ₹ 821.10 crore in 2005-07 period. This return increased to ₹ 3.19 crore (investment ₹ 828.68 crore) in 2007-08, but decreased to ₹ 2.14 and ₹ 2.06 crore against investments of ₹ 832.18 crore and ₹ 856.18 crore during 2008-09 and 2009-10 respectively.

1.6.3 Loans and advances by the State Government

In addition to investments in co-operative institutions/societies, Government Corporations and companies, the State Government has also been providing loans and advances to many institutions and organizations. **Table 1.11** presents the status of outstanding loans and advances and interest receipts vis-à-vis interest payments during the last three years.

Table-1.11: Average Interest Received on Loans Advanced by the State Government

	(₹ in crore)		
Amount of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10
Opening Balance	13881.56	14128.10	14667.83
Amount advanced during the year	272.70	551.05	896.78
Amount received during the year	26.16	11.32	13.20
Closing Balance	14128.10	14667.83	15551.41
<i>Of which</i> Outstanding balance for which terms and conditions have been settled			
Net addition	246.54	539.73	883.58
Interest Receipts	170.71	304.57	353.27
Interest receipts as percentage of outstanding Loans and advances	1.21	2.08	2.27
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	7.27	6.83	6.28
Difference between interest payments and interest receipts (<i>per cent</i>)	6.06	4.75	4.01

(Source: Finance Accounts, Government of Bihar)

The power projects were the major recipients [₹ 626.25 crore (69.83 *per cent*)] of the Government loans totalling ₹ 896.78 crore during 2009-10. Further, of the total outstanding loans of ₹ 15551 crore, loans amounting to ₹ 12916 crore were pending with the sector. This was due to the fact that the Government was providing loans and advances to the power sector without ensuring their repayment capacity (principal and interest). In addition to these loans and advances, subsidies amounting to ₹ 840 crore were paid to the Bihar State Electricity Board.

1.6.4 Cash Balances and Investment of Cash balances

Table 1.12 depicts the cash balances and investments made by the State Government during the year.

Table-1.12: Cash Balances and Investment of Cash balances

(₹ in crore)

Particulars	As on 1 April 2009	As on 31 March 2010	Increase/ Decrease
Cash Balances	-740.06	-2536.45	-1796.39
Investments from Cash Balances (a to d)	3978.90	4347.04	368.14
a. GOI Treasury Bills	0.00	0.00	0.00
b. GOI Securities	3974.24	4342.39	368.15
c. Securities of other State Government	4.66	4.65	-0.01
d. Other Investments	0.00	0.00	0.00
Funds-wise Break-up of Investment from Earmarked balances (a to c)	140.0961	280.10	140.00
a. Famine Relief Fund	0.10*	0.10*	0.00
b. Sinking Fund	140.00	280.00	140.00
Interest Realized	249.64	327.48	77.84

*No increase, figures adopted by rounding of 0.0961

(Source: Finance Accounts, Government of Bihar)

The Reserve Bank of India (RBI) has fixed a normal Ways and Means Advances limit of ₹ 425 crore with effect from 1 April 2006 to the State Government. In addition, RBI provided the facility of special Ways and Means advances against the pledge of Government securities to the State Government. During 2009-10, the State Government maintained the minimum balance and did not resort to any advance throughout the year. The Government had also not availed any Ways and Means Advance since 2006, indicating an effective cash management at the State level.

In addition, the State Government made investments in Government of India Securities (₹ 4342.39 crore) and in the securities of other State Government (₹ 4.65 crore) as on 31.03.2010.

1.7 Assets and Liabilities

1.7.1 Growth and composition of assets and liabilities

The existing Government accounting system does not provide for the comprehensive accounting of fixed assets like land and buildings owned by the Government. However, the Government accounts do capture the financial liabilities of the Government as well as its assets. **Appendix 1.7** gives a comparative abstract of such assets and liabilities as on 31 March 2009 and 2010. The major liabilities were internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, whereas the assets included the capital outlays, loans and advances given by the State Government and cash balances.

The FRBM Act, 2006 defines the total liabilities of the State as the liabilities under the Consolidated Fund of the State and the Public Account of the State including loans and advances from the Central Government, borrowings by public sector undertakings and special purpose vehicles and other equivalent instruments including guarantees, where the principal (and/ or) interest is to be serviced from

the State budget. Audit analysis of the liabilities and assets of the State revealed that liabilities of the State increased by ₹ 5650 crore against an increase of ₹ 2707 crore in asset creation indicating the State's reliance on borrowings.

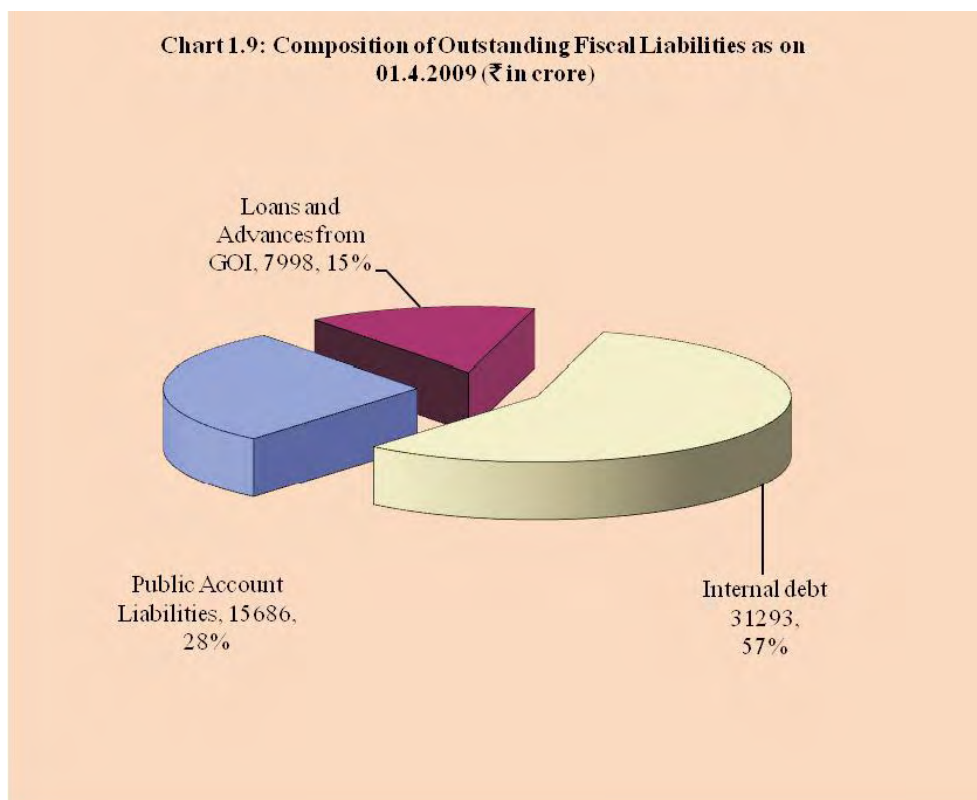
1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State for the period 2005-10 are presented in **Table 1.13**.

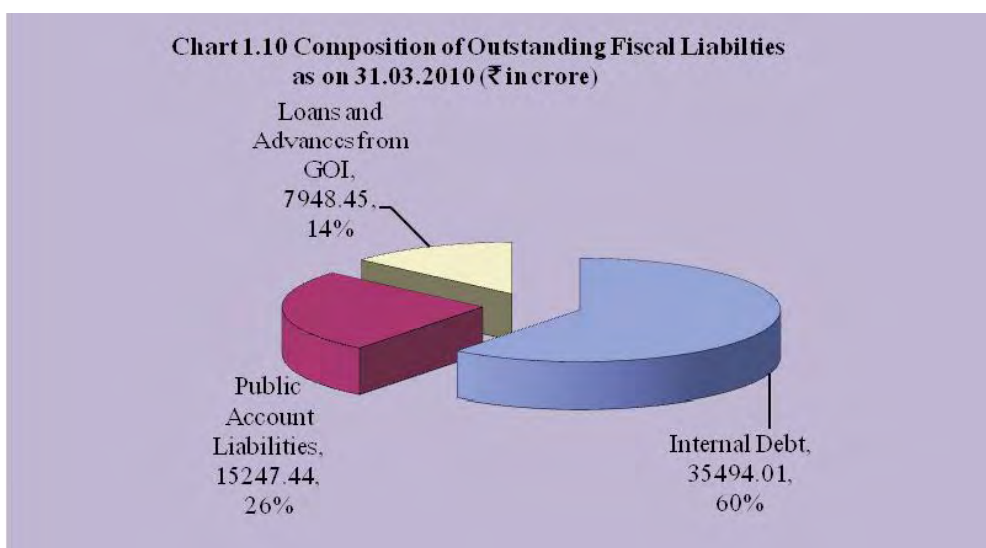
Table 1.13: Outstanding Fiscal Liabilities⁹

Year	2005-06	2006-07	2007-08	2008-09	2009-10
Amount (₹ in crore)	46495	49089	50989	54977	58690
Growth Rate	9.44	5.58	3.87	7.82	6.75

Further, the composition of the fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.9** and **1.10**.



⁹ Market loan, Loans and advances from GOI, Loans from Small Saving Provident Fund etc and other obligation.



As derived from **Appendix 1.4**, the growth of fiscal liabilities decreased from 7.82 per cent (2008-09) to 6.75 per cent (2009-10) and the ratio of fiscal liabilities to GSDP also decreased from 58.57 per cent (2005-06) to 37.85 per cent during the year 2009-10. The liabilities stood at 1.65 times the revenue receipts and 6.01 times the States' own resources at the end of 2009-10. The buoyancy of these liabilities with respect to GSDP during the year was 0.77. Further, the fiscal liabilities increased from ₹ 46495 crore in 2005-06 to ₹ 58690 crore in 2009-10, with the internal debt component increasing from 54 to 60 per cent during 2005-10. The State Government constituted (2008-09) a Sinking Fund for amortization of loans raised by the Government.

1.7.3 Status of Guarantees—Contingent liabilities

Every year, the State Government gives sovereign guarantees for Statutory Corporations and Boards, Autonomous bodies, Government Companies, Joint Stocks Companies and Co-operative Banks & Societies. These guarantees are contingent liabilities on the Consolidated Fund of the State, in case of defaults by the borrowers. The position of guarantees given by the State Government for the last three years is shown in **Table 1.14**.

Table-1.14: Guarantees given by the Government

Guarantees	₹ in crore)		
	2007-08	2008-09	2009-10
Maximum amount guaranteed	1537.73	1547.73	1547.73
Outstanding amount (Principal) of guarantees	516.31	704.24	898.83
Percentage of maximum amount guaranteed to total revenue receipts	5.45 (28210)	4.69 (32981)	4.36 (35527)
Figures in brackets indicate revenue receipts			

(Source: Finance Accounts, Government of Bihar)

Table 1.14 reveals that ₹ 898.83 crore against a total guarantee of ₹ 1547.73 crore, as on 31st March 2010, remained outstanding excluding the interest chargeable on

them. The increase in the guarantee amount by ₹ 194.59 crore during the year was due to additional guarantees given to the Bihar State Electricity Board. Further, the State Government has yet to establish a guarantee redemption fund, through earmarked guarantee fees for the discharge of any liability.

1.8 Debt Sustainability

Sustainability of debt is an important indicator in assessing the overall financial health of a State Government. In the assessment of debt sustainability¹⁰, the important considerations include the magnitude of debt, debt stabilization¹¹; sufficiency of non-debt receipts¹²; net availability of borrowed funds¹³; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of the State Government securities. Table 1.15 analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2007-08.

Table 1.15: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10
Debt Stabilisation (Quantum Spread + Primary Surplus)	5925.05	10729.53	-226.39
Sufficiency of non-debt receipts (Resource Gap)	1318.00	-804.00	-1524
Net Availability of borrowed funds	-1496.00	93	28
Burden of Interest Payments (IP/RR Ratio)	0.13	0.11	0.10
Maturity Profile of State Debt (in years)			
Zero to one year	27	23	7
One to three years	12	12	12
Three to five years	14	14	10
Five to seven years	02	02	2
More than seven years	-	05	9

(Source: Finance Accounts, Government of Bihar)

¹⁰ Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in the capacity to service the debt.

¹¹ A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, the debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

¹² Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

¹³ Defined as the ratio of the debt redemption (principal + interest payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

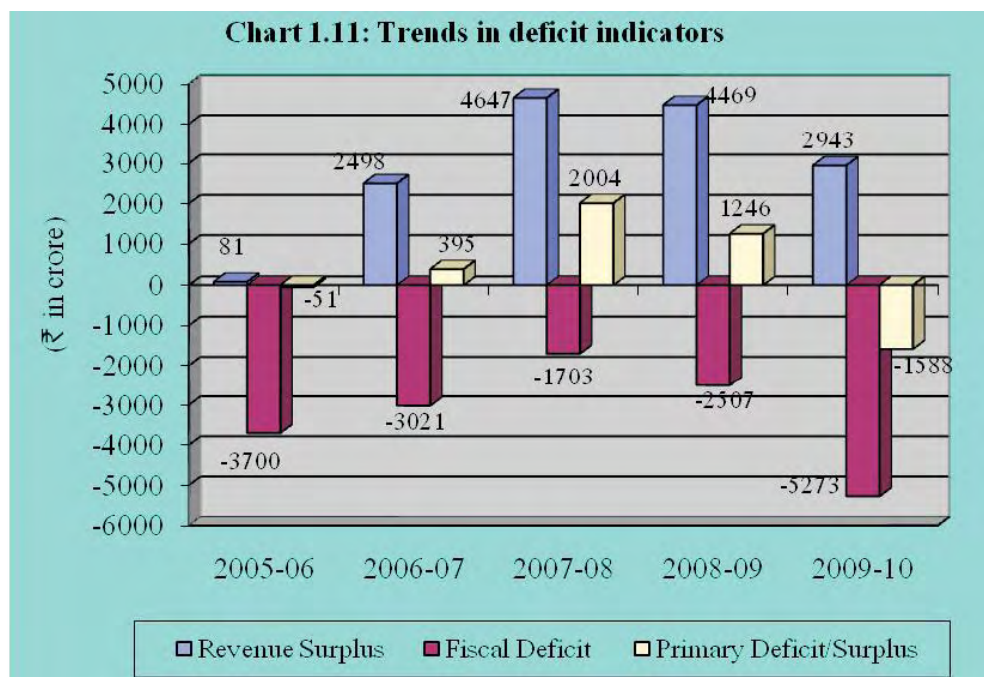
During 2009-10, the State experienced a primary deficit against the prevailing primary surplus for the period 2007-09. Further, during 2009-10, the incremental non-debt receipt did not cover the incremental expenditure. Hence, if this gap widens in the coming years, debt repayment could become a problem. However, since the other debt sustainability indicators such as the net availability of borrowed funds and the ratio of interest payment to revenue receipt were positive, it indicates that the State had no problem in debt repayment, provided effective steps were taken to reduce the primary deficit and resource gaps.

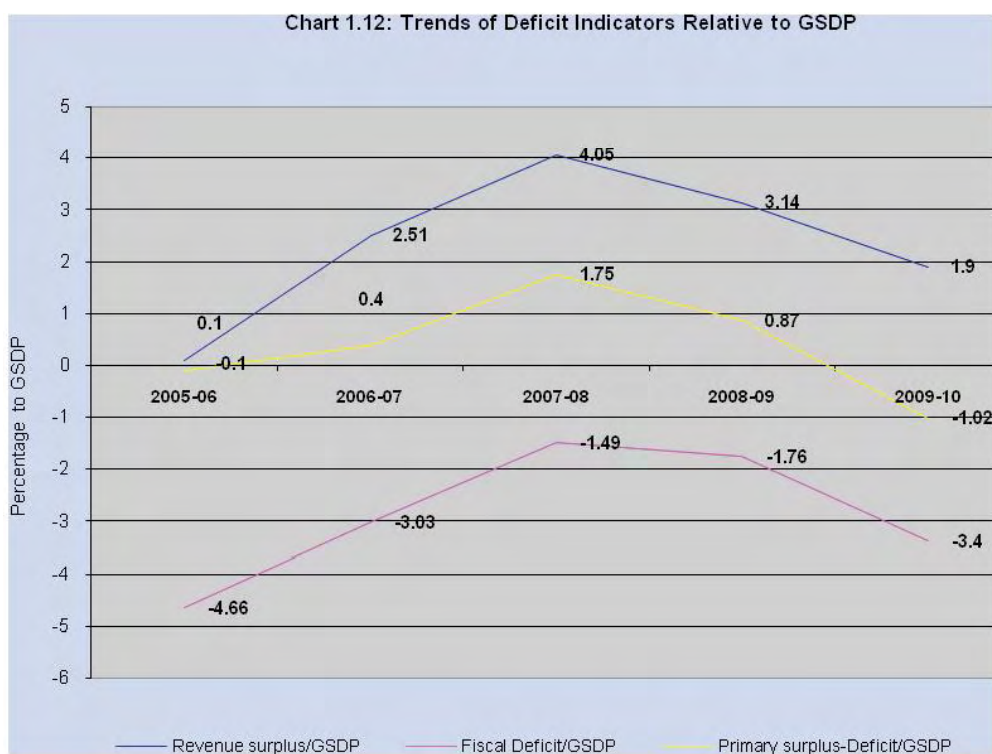
1.9 Fiscal imbalances

Any deficit in the Government finances indicates that there is a gap between its receipts and expenditure. Once the existence of a deficit is established, the extent of its overall fiscal imbalances in the State Government finances during a specified period can be assessed, applying the following three key parameters – revenue deficit, fiscal deficit and primary deficits. In this regard, it is important to understand that the nature of a deficit is an indicator of the State's prudence in fiscal management. Further, the sources from which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. The trends, nature, magnitude and the manner of financing these deficits and to assess the actual levels of revenue and fiscal deficits vis-à-vis targets set under the FRBM Act, 2006 is as follows:

1.9.1 Trends of Deficits

Chart 1.11 and 1.12 presents the trends in deficit indicators over the period 2005-10.





The State has been experiencing revenue surplus since 2005-06. **Chart 1.11** indicates that the actual surpluses had, however, decreased during 2008-09 and 2009-10 by ₹ 178 crore and ₹ 1526 crore compared to the previous year. The State achieved actual deficit targets as laid down in its FRBM/TFC much before the prescribed timeframe. Fiscal deficit increased from ₹ 2507 crore in 2008-09 to ₹ 5273 crore in 2009-10 and its ratio with GSDP increased from 1.76 per cent to 3.40 per cent as indicated in **Chart 1.12**. Although the increase in fiscal deficit was within the revised limit of 3.5 per cent, it was against the spirit of the FRBM Act, which provided that the fiscal deficit GSDP ratio would be reduced by 0.3 per cent every year. Primary surplus of ₹ 1246 crore (2008-09) turned into primary deficit of ₹ 1588 crore during the year.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

Chart 1.11 shows that there was a drastic fall in the State's revenue surplus from ₹ 4469 crore in 2008-09 to ₹ 2943 crore in 2009-10. This was mainly because while the revenue receipt increased by ₹ 2546 crore (7.72 per cent), the revenue expenditure increased by ₹ 4072 crore (14.28 per cent) over the previous year, resulting in a decrease of ₹ 1526 crore in the revenue surplus during 2009-10.

The financing pattern of the fiscal deficit too has undergone a compositional shift as reflected in the **Table 1.16**.

Table 1.16: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Particulars		2005-06	2006-07	2007-08	2008-09	2009-10
Composition of Fiscal Deficit		-3700.15	-3020.91	-1703.46	-2506.97	-5273.01
1	Revenue Deficit/Revenue Surplus	80.71	2498.14	4646.85	4469.11	2942.66
2	Net Capital Expenditure	-2083.90	-5211.13	-6103.78	-6436.35	-7332.09
3	Net Loans and Advances	-1696.96	-307.92	-246.53	-539.73	-883.58
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	343.13	-412.72	-779.56	3757.12	2501.91
2	Loans from GOI	-486.04	-314.15	39.75	-278.81	-49.35
3	Special Securities Issued to NSSF	2446.59	2040.69	661.59	529.08	1472.52
4	Loans from Financial Institutions	485.92	-314.15	58.26	238.22	226.32
5	Small Savings, PF etc.	365.02	395.05	268.40	144.41	-262.86
6	Deposits and Advances	414.56	869.48	1700.04	-690.52	-134.15
7	Suspense and Misc	-39.91	583.65	-2190.35	395.96	-290.89
8	Remittances	11.34	-63.14	618.30	-221.57	-54.82
9	Others	439.62	nil	-44.60	293.24	-41.69
Overall Surplus/Deficit		298.88	97.01	-1371.62	1660.14	-1906.02

*All these figures are net of disbursements/outflows during the year

(Source: Finance Accounts, Government of Bihar.)

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) 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 ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State is continuously shrinking and that a part of borrowings (fiscal liabilities) are not supported by any assets.

Table 1.17: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Exp-enture	Capital Exp-enture	Loans and Advances	Primary Exp-enture	Primary revenue deficit (-) /surplus (+)	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (3-6)	8 (2-6)
2005-06	17888	14107	2084 (12)	1748	17939	-3832	-51
2006-07	23090	17169	5211 (23)	315	22695	-5526	+395
2007-08	28236	19856	6104 (23)	272	26232	-6376	+2004
2008-09	32992	24759	6436 (20)	551	31746	-6987	+1246
2009-10	35540	28899	7332 (21)	897	37128	-8229	-1588

(Source: Finance Accounts, Government of Bihar.)

Table 1.17 presents the bifurcation of the primary deficit, indicating thereby 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.

The non-debt receipts of the State were sufficient not only to meet the primary expenditure requirements in the revenue account but could also provide surplus receipts to meet the expenditure under the capital account. This surplus non-debt receipt was, however, not enough to meet the expenditure requirement under the capital account resulting in a primary deficit in 2005-06 and 2009-10. Non-debt receipts exceeded the primary expenditure during 2006-09, resulting in primary surpluses during the years. There was, however an increase in expenditure on account of capital and in loans and advances resulting in a primary deficit of ₹ 1588 crore during 2009-10.

1.10 Performance of State during the TFC award period

The following are some of the highlights of the financial performance of the State during the TFC award period 2005-10:

- The ratio of the combined Centre and States' tax to GSDP ranged between 16.75 and 17.61 *per cent* during 2005-10 against the TFC recommendation of 17.60 *per cent*.
- Against the recommended primary expenditure target of 23 *per cent* of GSDP, the State's achievement was satisfactory and ranged between 22.28 and 23.95 *per cent* during 2005-10.
- The capital expenditure of the State ranged between 2.63 and 5.32 *per cent* during 2005-10, but never reached the recommended seven *per cent* of GSDP.
- The Debt (fiscal liability)-GSDP ratio of the State showed a declining trend, decreasing from 58.57 *per cent* (2005-06) to 37.85 *per cent* (2009-10). The Thirteenth Finance Commission has recommended that all States should bring down their fiscal liabilities to 25 *per cent* of GSDP by 2014-15. The Government of Bihar will have to take necessary steps to ensure a debt management strategy that will ensure that this target is met.
- The Fiscal Deficit-Gross State Domestic Product ratio of the State decreased from 4.66 *per cent* to 1.76 *per cent* during 2005-09, but increased to 3.40 *per cent* during 2009-10, which was within the revised limit of 3.5 *per cent* for 2008-10.
- Interest payment/revenue receipts ratio of the State decreased from 20.46 *per cent* in 2005-06 to 10.37 *per cent* during the year 2009-10, which was well within the recommended limit of 15 *per cent* by 2009-10.
- The State enjoyed revenue surpluses during the entire TFC award period of 2005-10.
- All Central loans to the State contracted till 31.03.2004 and outstanding on 31.03.2005 were consolidated and rescheduled for a fresh term of 20 years at an interest rate of 7.5 *per cent*. The State also enjoyed the benefit of 'debt write off' scheme based on the condition of enactment of the FRBM

Act and subject to reducing the revenue deficit during the award period. A total amount of ₹ 769.87 crore was written off in two phases by waiving off ₹ 384.933 crore each during the years 2007-08 and 2009-10.

- Though the State was recommended grants of ₹ 7531 crore by the TFC for different specified areas¹⁴ during the award period of 2005-10, the actual releases to the State were ₹ 6794 crore only. This was due to the non-fulfillment of the condition to incur Non-plan revenue expenditure to a minimum extent in those specified areas.
- In addition, for the award period 2005-10, grants were also recommended under different sectors (Forest, Heritage Conservation and State-specific needs) for ₹ 446 crore against which the State received ₹ 339 crore only.
- Against the projections of the States' own tax revenue (₹ 32648 crore) and non-tax revenue (₹ 5890 crore) by TFC, the actual receipts were ₹ 26943 crore and ₹ 4382 crore, resulting in short receipts of ₹ 5705 crore and ₹ 1508 crore respectively during the award period.
- During the award period, interest and pension payments at ₹ 18210 crore and ₹ 15540 crore respectively were within the TFC assessments of ₹ 22799 crore and ₹ 16347 crore respectively.
- Non-Plan revenue expenditure on Social and Economic Services against the recommendation of ₹ 27114 crore and ₹ 7012 crore actual were ₹ 33987 crore and ₹ 14186 crore i.e. higher by ₹ 6873 crore and ₹ 6712 crore respectively, showing the Government's intention to pay more emphasis on developmental work.

1.11 Conclusion

During the current year, the revenue surplus decreased by ₹ 1526 crore as the growth of revenue receipts was eight *per cent* while the growth of revenue expenditure was 14 *per cent* over the previous year. Though the tax revenue of the State increased by 31 *per cent* over the previous year, it was still short by ₹ 150 crore of the normative assessment made by the TFC (₹ 8240 crore). The non-tax revenue realization, however, was ₹ 52 crore above the projection made in TFC. The cost of collection in respect of all the State taxes was more than the All India average, except in the case of commercial taxes. Realisation of the States own tax revenue and non-tax revenue during the TFC award period was short by 17 and 26 *per cent* respectively.

The Non-Plan revenue expenditure increased by 14 *per cent* over the previous year and was ₹ 4156 crore above the projection (₹ 19989 crore) made in TFC. The Plan revenue expenditure also showed an increase of 16 *per cent* over the previous year. The expenditure on salaries and wages under the Non-Plan head compared to NPRES net of interest payment and pension was 56 *per cent* which was significantly more than the 35 *per cent* recommended by TFC. Capital expenditure increased during the year by 14 *per cent* over the previous year. Capital

¹⁴ Panchayati Raj, Urban Development, Disaster Management, Education, Health, Road & Bridge and Building Department

expenditure of the State ranged between 2.63 to 4.73 *per cent* during the TFC award period and never reached the recommended seven *per cent* of GSDP.

The return on investments made by the State Government ranged between ₹ 0.04 crore to ₹ 3.19 crore during the year 2005-10. Loans and Advances were being disbursed without ensuring refunds and interest thereon, with the result that, as of March 2010, loans for ₹ 15551 crore were outstanding.

During the year, Government of India directly transferred ₹ 5182 crore to State implementing agencies. Such transfer of funds bypassing the State budget posed a risk of improper utilisation by the implementing agencies, especially because such expenditure was not reflected in the monthly accounts submitted by the State Treasuries to the Accountant General (A&E).

1.12 Recommendations

- Though the increase in fiscal deficit was within the revised limit of 3.5 *per cent*, it was against the spirit of the FRBM Act, which provided that the fiscal deficit to GSDP ratio must be reduced by 0.3 *per cent* every year. The Government should initiate steps to achieve this target.
- There is an urgent need for the Government to set up a Guarantee Redemption Fund financed by the guarantee fees collected. This will ensure timely repayment of guaranteed amounts from this fund.
- Central funds transferred directly to State implementing agencies constituted a significant amount of expenditure during the year. However, the State implementing agencies did not have a uniform accounting procedure or reporting protocol regarding the utilisation of these funds. Since there is no certainty regarding the amount of funds actually utilized during the year, there is an urgent need for periodic monitoring of this expenditure either by the State Government or by the Government of India.
- There is an urgent need to institutionalise transparency and accountability systems for better monitoring of Central funds directly transferred to State implementing agencies either by the State or by the Government of India.
- The State Government should ensure the availability of funds for repaying the principal and interest accrued on loans and advances taken from the Central Government or through other borrowings.
- There is a requirement for reducing the reliance on borrowings so as to prevent further diminishing of assets.