

## 1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Jharkhand 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 structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.1**. The methodology adopted for assessment of the fiscal position of the State is given in **Appendix 1.2**. Time series data on State Government finances is given in **Appendix 1.3**.

## 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 (2008-09) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations.

(Rupees in crore)

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
Section-A: Revenue					Non-plan	Plan	Total
12026.55	Revenue Receipts	13212.84	10831.97	Revenue expenditure	9063.71	3813.19	12876.90
3473.55	Tax revenue	3753.21	4607.49	General Services	4729.19	194.80	4923.99
1601.40	Non-tax revenue	1951.74	4257.02	Social Services	3270.22	2114.96	5385.18
5109.83	Share of Union Taxes/Duties	5392.11	1967.37	Economic Services	1029.05	1503.43	2532.48
1841.77	Grants from Government of India	2115.78	0.09	Grants-in-aid and Contributions	35.25	-	35.25
Section-B: Capital							
	Misc. Capital Receipts		2583.54	Capital Outlay	35.82	3015.45	3051.27
44.22	Recoveries of Loans and Advances	18.90	597.66	Loans and Advances disbursed	163.83	254.36	418.19
2022.65	Public debt receipts *	2436.56	747.37	Repayment of Public Debt	-	-	863.40
31.75	Transfers to Contingency Fund	-	-	Expenditure from Contingency Fund	-	-	-
7013.07	Public Account Receipts	8335.16	6206.46	Public Account disbursements	-	-	7185.19
1003.64	Opening Cash Balance	1174.88	1174.88	Inter State Settlement	-	-	145.87
				Closing Cash Balance	-	-	637.52
<b>22141.88</b>	<b>Total</b>	<b>25178.34</b>	<b>22141.88</b>	<b>Total</b>			<b>25178.34</b>

(Source: Finance Accounts for the years 2007-08 and 2008-09).

\* Excluding net transactions under Ways and Means advances and overdraft.

The significant changes during 2008-09 as compared to the previous year are given below:

- Revenue receipts of the State increased by Rs 1186 crore (10 *per cent*) over the previous year. The increase was due to increase in tax revenue by Rs 279 crore (eight *per cent*), non-tax receipts by Rs 351 crore (22 *per cent*), State's share of Union taxes and duties by Rs 282 crore (six *per cent*) and grants-in-aid by Rs 274 crore (15 *per cent*).
- Revenue expenditure increased by Rs 2045 crore (19 *per cent*) mainly due to increase in expenditure on General Services (Rs 317 crore), Social Services (Rs 1128 crore) and Economic Services (Rs 565 crore).
- Capital expenditure increased by Rs 467 crore (18 *per cent*) over the previous year.
- Recovery and disbursement of loans and advances decreased by Rs 25 crore (57 *per cent*) and Rs 180 crore (30 *per cent*) in 2008-09 respectively over the previous year.
- Public Debt receipts and repayment increased by Rs 414 crore (20 *per cent*) and Rs 116 crore (16 *per cent*) respectively over the previous year.
- Public Account receipts and disbursements increased by Rs 1322 crore (19 *per cent*) and by Rs 979 crore (16 *per cent*) respectively.
- The net impact of these transactions led to a significant decrease of Rs 537 crore in the cash balance at the end of the year of the State over the previous year.

### Review of the fiscal position

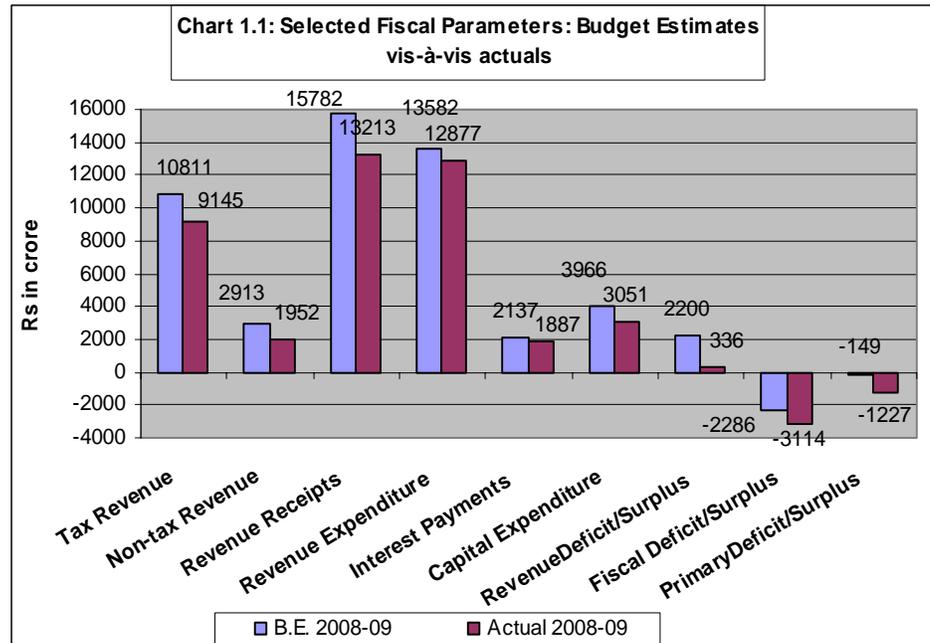
As per the Jharkhand Fiscal Responsibility and Budget Management (FRBM) Act, 2007, in line with the recommendation of the Twelfth Finance Commission (TFC), the State Government was to eliminate the revenue deficit by the end of March 2009 and reduce the fiscal deficit to not more than three *per cent* of the estimated Gross State Domestic Product (GSDP) by March 2009.

The State had achieved the target set in the FRBM Act by eliminating the revenue deficit in 2006-07 by turning the deficit into a huge revenue surplus (Rs 946 crore), and further improving the revenue surplus to Rs 1195 crore in 2007-08. However, the surge in revenue expenditure *vis-à-vis* revenue receipts during 2008-09, if allowed to continue, could pose a substantial threat to retention of the present fiscal situation.

### Budget analysis

Budget papers presented by a State Government provide descriptions of the projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives, due to a variety of causes, some within the control of Government and some outside.

**Chart 1.1** Presents the budget estimates and actuals for some important fiscal parameters.

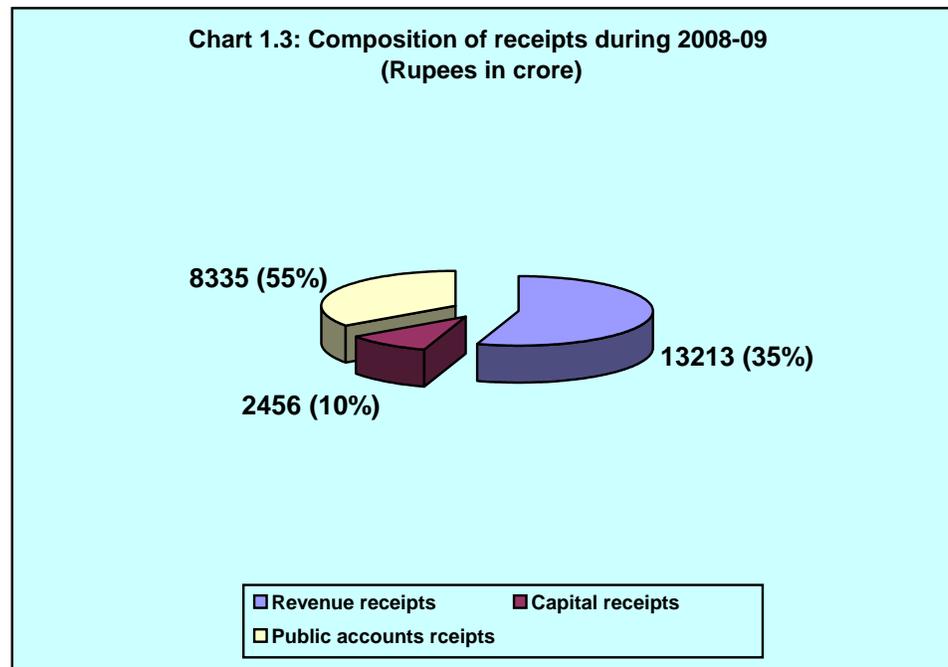
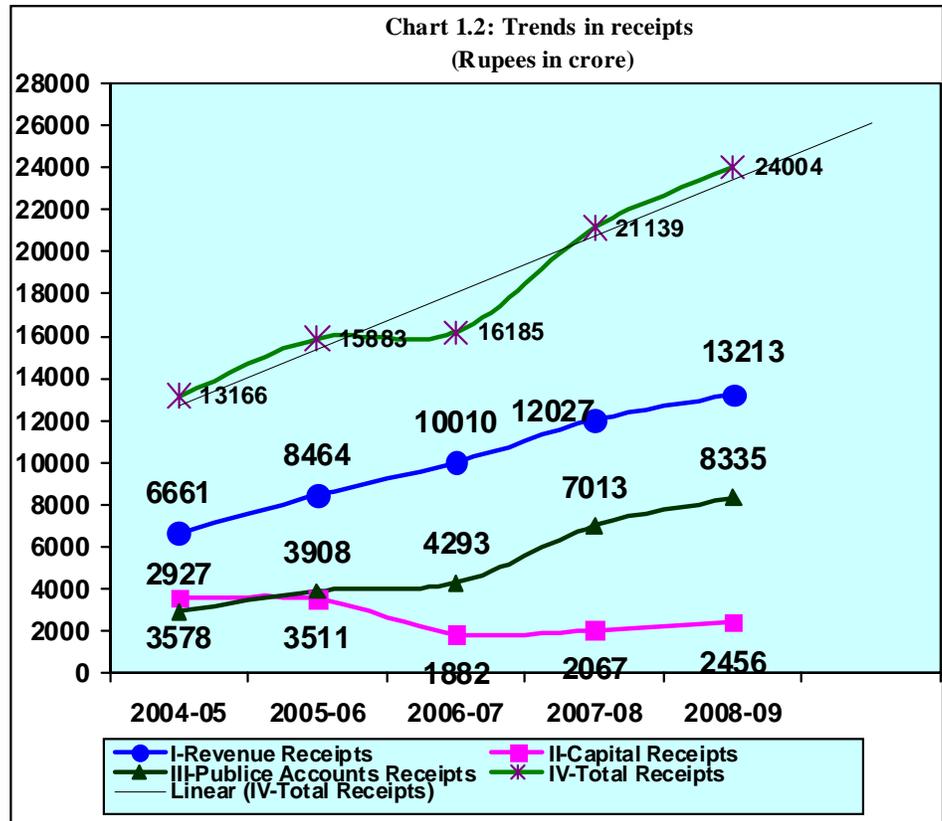


- Revenue receipts, revenue expenditure and capital expenditure were less than the budget estimates by Rs 2569 crore (16 per cent) Rs 705 crore (five per cent) and Rs 915 crore (23 per cent) respectively
- Against an estimated target of revenue surplus of Rs 2200 crore, set in Fiscal Correction Path (FCP), the financial year ended with a revenue surplus of Rs 336 crore
- The fiscal deficit and primary deficit increased by Rs 828 crore (36 per cent) and Rs 1078 crore (723 per cent) against 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 resources of the State Government. 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), loans and advances from GOI as well as accruals from the 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 2004-09. **Chart 1.3** depicts the composition of resources of the State during the current year.



- The total receipts of the State increased steadily from Rs 13166 crore in 2004-05 to Rs 24004 crore in 2008-09, due to lower growth rate of Public Account receipts (19 per cent).

- The debt capital receipts (capital receipts minus recovery of loans and advances) increased to Rs 2023 crore and Rs 2437 crore (20 per cent each) in 2007-08 and 2008-09 respectively.
- Public Account receipts increased steadily from Rs 2927 crore (22 per cent of total receipts) in 2004-05 to Rs 8335 crore (35 per cent of total receipts) in 2008-09.

### 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<sup>1</sup> for the implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the 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, the funds directly transferred to State implementing agencies are presented in **Table 1.2**.

**Table 1.2: Funds transferred directly to State Implementing Agencies**

*(Rupees in crore)*

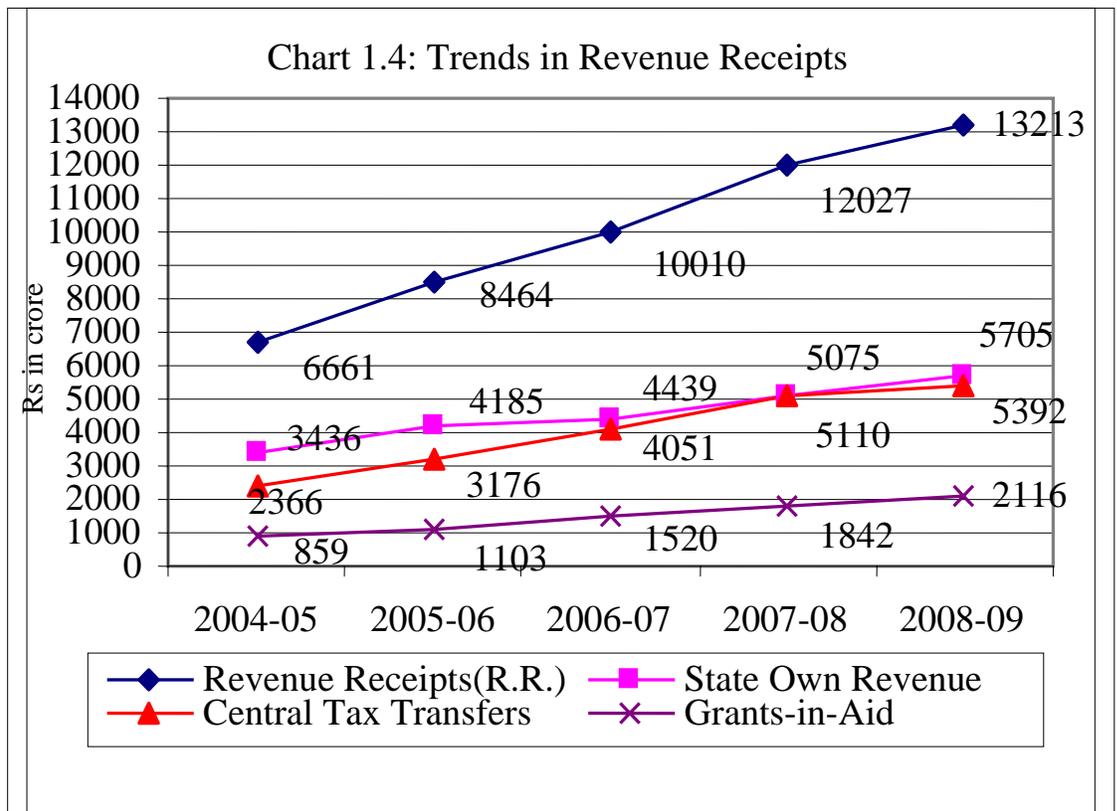
Programme/scheme (indicate Centre: State share)	Implementing agency in the State	2008-09
National Rural Employment Guarantee Act, Swarnjayanty Gram Swarojgar Yojana Indira Awas Yojana (New construction), Indira Awas Yojana (Upgradation), District Rural Development Agency (Administration)	District Rural Development Agency	256.92
Member of Parliament Local Area Development	District Magistrates	10.50
Sarva Shiksha Abhiyan	Jharkhand Education Project Council	541.55
National Rural Health Mission	(i) Jharkhand Rural Health Mission Society, Leprosy Control Society, TB Control Society and Blind Control Society; (ii) Jharkhand States, AIDS Control Society,	135.55
Schemes implanted by NGOs and other societies	NGOs and other Societies	234.99
<b>Total</b>		<b>1179.51</b>
<i>Source: Controller General of Accounts, Government of India. However, the data was not reconciled with the figures of implementing agencies.</i>		

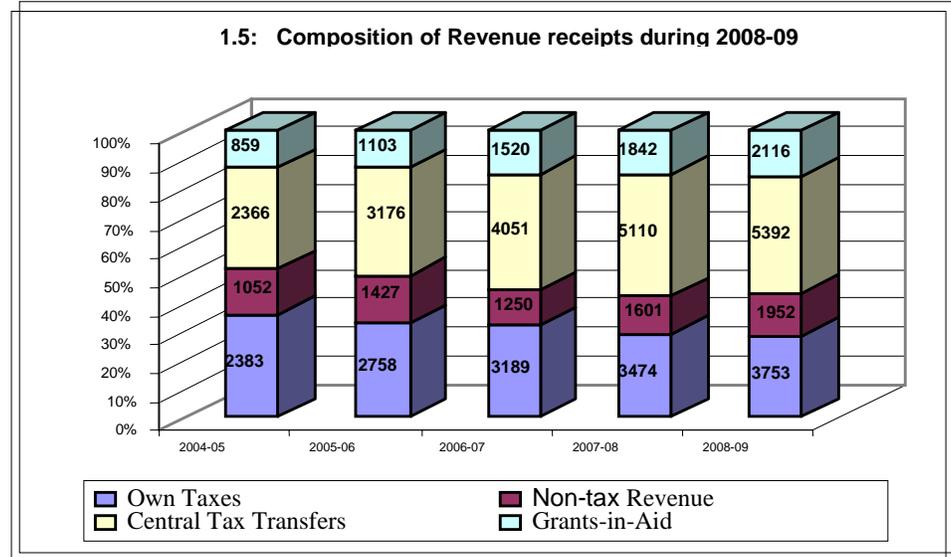
<sup>1</sup> State implementing agency includes any organization/Institution including non-Governmental organizations which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA, State Health Mission for NRHM etc.

Out of Rs 1179.51 crore transferred directly to State implementing agencies to execute specific Central programmes in the State, a major amount of Rs 541.55 was transferred to the Jharkhand Education Project Council. Direct transfer of funds from the Union to State implementing agencies run the risk of improper utilisation of funds by these agencies. Unless uniform accounting policies are followed by all these agencies with proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers.

### 1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its 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 1.3** and also depicted in **Charts 1.4** and **1.5** respectively.





- The revenue receipts of the State steadily increased by 98 per cent from Rs 6661 crore in 2004-05 to Rs 13213 crore in 2008-09. However, the share of the State's own resources to total revenue receipts steadily declined from 52 per cent in 2004-05 to 28 per cent in 2008-09. On the other hand, the share of both Central tax transfers and grants-in-aid showed an increasing trend during 2004-09. While on an average around 43 per cent of the revenue in 2008-09 came from the State's own resources, Central tax transfers and grants-in-aid together contributed about 57 per cent of the total revenues.
- During the year the total receipts comprised the States' own tax revenue: Rs 3753 crore (28 per cent), non-tax revenue: Rs 1952 crore (15 per cent), central tax transfer: Rs 5392 crore (41 per cent) and grants-in-aid: Rs 2116 crore (16 per cent) with a growth rate of eight per cent, 22 per cent, six per cent and 15 per cent respectively over the previous year.
- The growth rate of non-tax revenue, Central taxes and grants-in-aid declined by six per cent, 20 per cent and six per cent respectively over the previous year.
- The State also received debt relief of Rs 131.91 crore (Rs 81.01 crore as interest relief and Rs 50.90 crore as principal amount), during the year due to enactment of the FRBM Act. The State's own revenue-GSDP percentage was 7.53 per cent against Mid Term Fiscal Policy (MTFP) target of 11.58 per cent for the year 2008-09.

The trends of revenue receipts relative to GSDP are presented in **Table 1.3**.

**Table 1.3: Trends in Revenue Receipts relative to GSDP**

	2004-05	2005-06	2006-07	2007-08	2008-09
<b>Revenue Receipts (RR) (Rupees in crore)</b>	<b>6661</b>	<b>8464</b>	<b>10010</b>	<b>12027</b>	<b>13213</b>
Rate of growth of RR ( <i>Per cent</i> )	18.1	27.1	18.3	20.1	9.9
R R/GSDP ( <i>Per cent</i> )	13.0	15.4	15.8	17.4	17.5
<b>Buoyancy Ratios<sup>2</sup></b>					
Revenue Buoyancy w.r.t GSDP	0.87	3.93	1.20	2.12	1.06
State's Own Tax Buoyancy w.r.t GSDP	0.96	2.26	1.03	0.94	0.86
Revenue Buoyancy with reference to State's own taxes	0.91	1.73	1.17	2.26	1.24

- The growth rate of revenue receipts decreased significantly from 27.1 *per cent* in 2005-06 to 9.9 *per cent* 2008-09. However, it improved slightly during 2007-08 (20.1 *per cent*) against 18.3 *per cent* in 2006-07.
- The revenue receipts increased from Rs 12027 crore in 2007-08 to Rs 13213 crore in 2008-09 but their growth rate decreased from 20 *per cent* to 10 *per cent* respectively.
- Revenue buoyancy with respect to GSDP showed wide fluctuations between 0.87 and 3.93 during 2004-09. In 2004-05, it was at its lowest point i.e. 0.87, due to less collection of non-tax revenue and high growth of GSDP (20.9 *per cent*). In 2005-06, it was exceptionally high (3.93 *per cent*) due to the high growth of non-tax revenue (36 *per cent*) and low growth rate of GSDP (6.9 *per cent*). In 2008-09, it decreased to 1.06 against 2.12 in 2007-08 due to low growth of revenue receipts.
- The State's own tax buoyancies showed wide variations between 0.86 to 2.26 during 2004-09 due to wide fluctuation in the growth rate of both GSDP and its own tax revenue.
- GSDP of the State recorded wide variation from 6.9 *per cent* to 20.9 *per cent* during 2004-09. Its growth rate decreased significantly from 15.2 *per cent* in 2006-07 to 9.5 *per cent* in 2007-08 and 9.3 *per cent* in 2008-09.

### 1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and Central assistance for Plan schemes etc., the State's performance in mobilisation of additional resources should be

<sup>2</sup> 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*.

assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

### **Tax Revenue**

The tax revenue of the State increased from Rs 2383 crore in 2004-05 to Rs 3753 crore in 2008-09. Of the total tax revenue in 2008-09, sales tax contributed 80 *per cent* followed by Sate excise (5.5 *per cent*), taxes on vehicles (5.4 *per cent*), stamp duty and registration (five *per cent*) and other taxes (2.8 *per cent*).

During 2008-09, the growth rate of all the tax revenue components was very low in comparison to the growth rate of collection charges against these services except the growth rate of collection of taxes on vehicles (48 *per cent*) which was slightly higher than the growth rate of its cost of collection (40 *per cent*). The tax revenue, though, recorded continuous increase during 2004-09. Its growth rate decreased from 20 *per cent* in 2004-05 to eight *per cent* in 2008-09 which was indicative of the fact that the implementation of VAT from April 2006 had no impact in the State on collection of own tax revenue.

### **Non-tax Revenue**

The share of non-tax revenue constituted 12 to 17 *per cent* of total revenue receipts during 2004-09. It, however, increased in 2008-09 by Rs 351 crore (22 *per cent*) over the previous year, mainly due to increase in receipts from Non-Ferrous Mining and Metallurgical Industries (Rs 300 crore), Miscellaneous General Services (Rs 112.87 crore), Interest receipts (Rs 22.39 crore), and Crop Husbandry (Rs 60.12 crore).

#### **1.3.2 Loss of Grants-in-aid due to non-fulfillment of NPRE levels**

Specific grants amounting to Rs 70.78 crore and Rs 39.78 crore for the education and health sectors respectively were included in total grants-in-aid transferred to the State during the year, which were below the amounts of Rs 141.56 crore and Rs 79.55 crore respectively, recommended by TFC for the year respectively. The precondition for release of grants-in-aid to these sectors was that budget estimates under Non Plan Revenue Expenditure (NPRE) should not be less than the projected 'total NPRE' for 2008-09 and the actuals of 2006-07 for NPRE under the relevant heads should not be less than the total of normal expenditure as prescribed by TFC plus actual release of grants for 2006-07. As there was a shortfall in the actual NPRE of 2006-07 for the education and health sectors by Rs 71.27 crore and Rs 48.01 crore respectively, the State received grants during 2008-09 which were lesser than what was recommended by TFC for the State for the current year.

#### **1.3.3 Loss of revenue due to evasion of taxes, write off/waivers and refunds**

During 2008-09, the Government accepted 24829 cases amounting to Rs 603.73 crore of under-assessment/losses etc pointed out by Audit in respect of different departments. This amount accounted for 4.57 *per cent* of the total revenue receipts during the year. Out of Rs 603.73 crore,

Rs 338.08 crore related to the Land Reforms Department and Rs 131.51 crore to the Sales Tax Department. Further, there were 55 cases of tax evasion detected by the Commercial Tax Department and the State Excise Department, of which assessments/investigations in had been completed in any case and additional demands, including penalty had not been raised till the end of March 2009.

### 1.3.4 Revenue Arrears

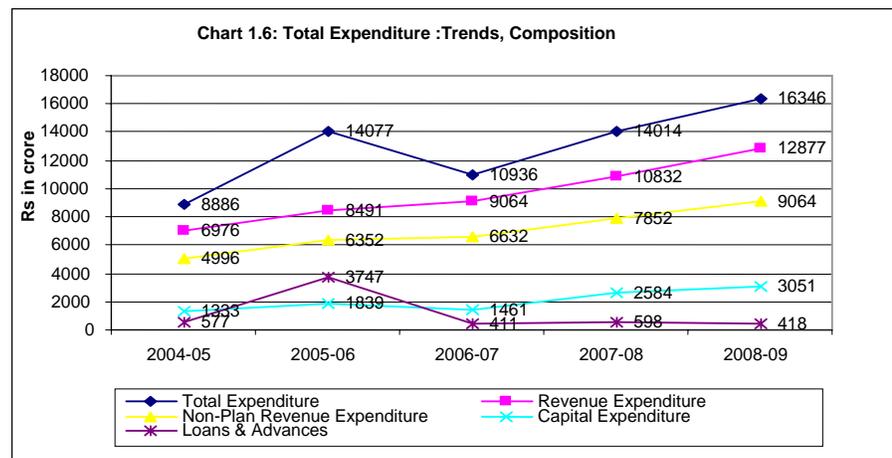
As on 31 March 2009, revenue arrears amounted to Rs 2069 crore. The percentage of these arrears as on 31 March 2009 to the State's own resources was 36 as against 35 at the end of 2007-08. The major portion of the revenue arrears related to the Finance (Commercial Taxes) Department (Rs 1737.21 crore), Mining and Geology Department (Rs 298.35 crore) and the Excise and Prohibition Department (Rs 29.39 crore). Out of the total arrears of these departments, recovery proceedings for Rs 1110.21 crore were stayed by judicial authorities whereas arrears of Rs.369.29 crore were certified for recovery.

## 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 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

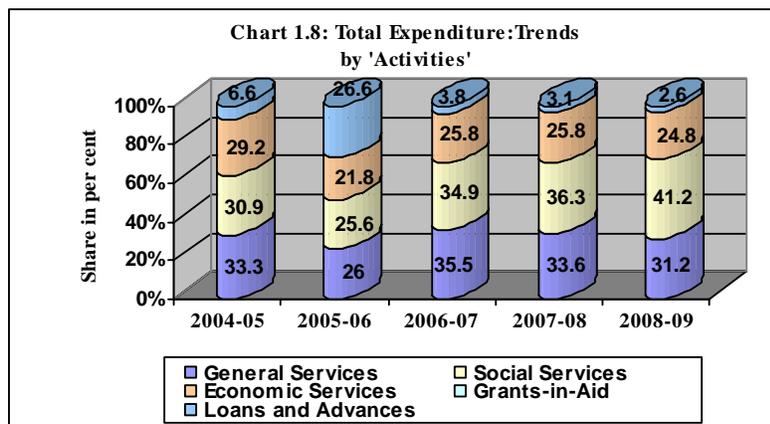
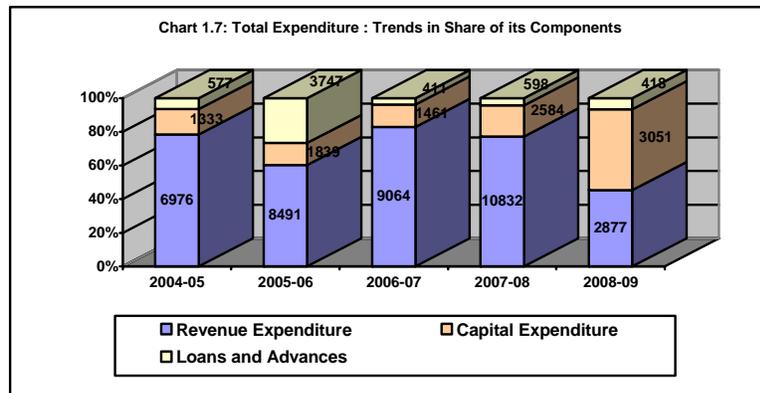
**Chart 1.6** presents the trends in total expenditure during 2004-05 to 2008-09. Its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8**, respectively.



- The total expenditure of the State increased from Rs 8886 crore in 2004-05 to Rs 16346 crore in 2008-09. During 2008-09 the revenue expenditure increased by Rs 2045 crore (19 per cent) and the

capital expenditure by Rs 467 crore (18 per cent) over previous year. However, this was partly offset by a decrease in loans and advances by Rs 180 crore (30 per cent). The decrease in loans and advances was due to decrease in loans to power projects by Rs 185.22 crore, mainly on account of non-payment of interest on power bonds in 2008-09.

- The trend in total expenditure in the form of Plan and Non-Plan expenditure during 2008-09 reveal that Non-Plan expenditure and Plan expenditure constituted 57 and 43 per cent respectively as against 58 per cent and 42 per cent respectively in 2007-08. Moreover, of the increase of Rs 2332 crore in total expenditure, Plan expenditure constituted 48 per cent (Rs 1110 crore) while Non-Plan expenditure contributed 52 per cent (Rs 1222 crore). The percentage of NPRE to the total expenditure oscillated between 45 and 60 during 2004-09. However, it remained constant (56 per cent) during 2007-08 and 2008-09.



- Revenue expenditure accounted for 79 per cent of the total expenditure during 2008-09.
- Revenue expenditure increased consistently from Rs 6976 crore in 2004-05 to Rs 12877 crore in 2008-09.
- Plan expenditure constituted 53 per cent of the total revenue expenditure while the rate of growth of NPRE increased from 4.4 per cent in 2006-07 to 18.4 per cent in 2007-08 over the previous year which again decreased to 15.4 per cent in 2008-09.

- Capital expenditure consumed 13 to 19 *per cent* of the total expenditure during 2004-09. Though the percentage of capital expenditure to the total expenditure remained equal during 2007-08 and 2008-09, it increased by Rs 467 crore over the previous year, mainly due to increase in expenditure on water supply and sanitation by Rs. 423 crore; on transport by Rs. 242 crore; on education, sports, art and culture by Rs 136 crore; on health and family welfare by Rs 82 crore. However, it was partly offset by a decrease in the expenditure on irrigation and flood control by Rs 461 crore.
- Loans and advances accounted for three to 27 *per cent* of the total expenditure during 2004-09. It decreased from Rs 597.66 crore in 2007-08 to Rs 418.19 crore in 2008-09, mainly due to decrease in loans to power projects by Rs 185.22 crore during the current year.
- During 2004-09 General Services accounted for between 26 and 36 *per cent*, Social Services accounted for between 26 and 41 *per cent* and Economic Services accounted for between 22 and 26 *per cent* of the total expenditure. Expenditure on General Services was almost at par with the expenditure on Social Services whereas it is much higher than the expenditure on economic services. This was indicative of more expenditure on non-developmental/less productive services.

#### 1.4.2 Committed expenditure

The committed expenditure of the State Government on the revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.4** and **Chart 1.9** present the trends in the expenditure on these components during 2004-09.

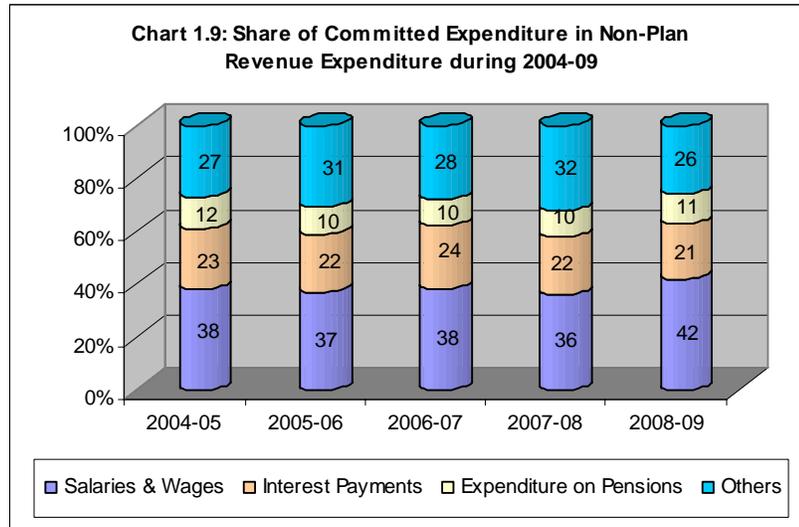
**Table 1.4: Components of Committed Expenditure**

*(Rupees in crore)*

Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE#	Actuals
Salaries* & Wages , Of which	2179 (33)	2547 (30)	2744 (27)	2985 (25)	4375	3948 (30)
Non-Plan Head	1910 (29)	2326 (27)	2518 (25)	2802 (23)	3222	3801 (29)
Plan Head**	269 (4)	221 (3)	226 (2)	183 (2)	1153	147 (1)
Interest Payments	1141 (17)	1420 (17)	1613 (16)	1758 (15)	2137	1887 (14)
Expenditure on Pensions	620 (9)	657 (8)	679 (7)	818 (7)	714	988 (7)
Subsidies	424 (6)	469 (6)	211 (2)	77 (1)	-	37 (0.3)
Other Components	-	-	-	-	-	-
Total	4364(66)	5093(60)	5247 (52)	5638 (47)	7226	6860(52)

Figures in parentheses indicate percentage of Revenue Receipts  
 \* It also includes salaries paid out of grants-in-aid.  
 \*\*Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.  
 # B.E. are gross figures while the actuals are net figures.

**(Source: Finance Accounts of Government of Jharkhand)**



- The expenditure on salaries and wages constituted 28 to 31 *per cent* of revenue expenditure and 25 to 30 *per cent* of revenue receipts during 2005-09. Salary expenditure (Rs 3948 crore) alone accounted for 30 *per cent* of revenue expenditure during 2008-09 which was within the limits of TFC norms (28 *per cent*).
- The salary expenditure under the Non-Plan head during 2008-09 was in excess by Rs 579 crore against the budget provisions, whereas, expenditure under the Plan head was only Rs 147 crore against the budget provision of Rs 1153 crore during the year.
- Expenditure on salaries under the Non-Plan heads during 2008-09 increased by Rs 998 crore (36 *per cent*) over the previous year, whereas the salary expenditure under Plan heads decreased by Rs 35 crore (19 *per cent*) over the previous year. Payment of arrears of pay after Sixth Pay Commission's Report was given as the main reason behind the significant increase.
- Expenditure on salaries under the Non-Plan heads as a percentage of Non-Plan Revenue Expenditure net of interest payment and pension amounts increased sharply from 53 *per cent* in 2007-08 to 61 *per cent* in 2008-09, which was nearly double the TFC norm of 35 *per cent* for the period.
- The expenditure on pensions increased by 59 *per cent* from Rs 620 crore in 2004-05 to Rs 988 crore in 2008-09.
- Pension payments increased by 21 *per cent* during 2008-09 over the previous year against TFC norms of 10 *per cent*. With the increase in the number of pensioners, the pension liabilities are likely to increase in future.
- Though interest payments increased by Rs 129 crore (seven *per cent*) during 2008-09 over the previous year, as a percentage of revenue receipts they decreased from 15 *per cent* in 2007-08 to 14 *per cent* in 2008-09.
- The State considerably curtailed unproductive expenditure on

subsidies from Rs 469.19 crore in 2005-06 to Rs 37 crore in 2008-09, as reflected in the FCP. Subsidy of Rs 469.19 crore, Rs 211.35 crore and Rs 77.27 crore was given only to the power sector during 2005-06, 2006-07 and 2007-08 respectively. In 2008-09, subsidy of Rs 36.58 crore and Rs 0.07 crore was given for agriculture and allied activities and industries and minerals respectively. No subsidy was given either to power sector or for food during 2008-09.

### 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 presented in **Table 1.5**.

**Table 1.5: Financial Assistance to Local Bodies etc.**

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	(Rupees in crore)	
					2008-09	
					BE*	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	222.41	363.95	419.59	402.16	704.50	616.38(87)
Municipal Corporations and Municipalities	48.83	77.28	109.58	146.07	54.19	50.90(94)
Zilla Parishads and Other Panchayati Raj Institutions	8.83	93.09	151.27	79.43	367.90	340.54(93)
Development Agencies	639.68	551.39	422.54	142.45	653.25	469.72(72)
Other Institutions (To be specified)	38.16	69.79	528.20	496.01	780.09	566.39(73)
<b>Total</b>	<b>957.91</b>	<b>1155.50</b>	<b>1631.18</b>	<b>1266.12</b>	<b>2559.93</b>	<b>2043.93(80)</b>
Assistance as percentage of RE	14	14	18	12	12	16

**Figures in bracket are percentages of actuals with respect to budget estimates.**  
**\* Budget estimates are gross figures while actual figures are net figures.**

(Source: Finance Accounts of Government of Jharkhand)

Financial assistance to local bodies increased steadily from Rs 957.91 crore in 2004-05 to Rs 2043.93 crore in 2008-09. Increase in financial assistance in 2008-09 was mainly due to increase in assistance to developmental agencies by Rs 327.27 crore, Zila Parishads and panchayati raj institutions by Rs 261.11 crore and educational institutions by Rs 214.22 crore. However, it was partly offset by decrease in assistance to municipal corporations by Rs 95.17 crore.

## 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 its effectiveness (assessment of outlay-outcome relationship for select services).

### 1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Government are largely State

subjects. Thus, in order to enhance social development levels in the States, it is essential to increase expenditure on key social services like education, health etc. The low level of spending on any sector by a particular State may be either due to the low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. Low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while low fiscal capacity would be reflected if the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. **Table 1.6** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

**Table 1.6: 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	19.50	61.44	30.41	14.13
Jharkhand's Average (Ratio) 2005-06	29.88	74.04	25.62	13.06
All States/National Average* (Ratio) 2008-09	19.16	67.68	33.90	16.87
Jharkhand Average (Ratio)* 2008-09	21.59	68.54	41.23	18.67
Fiscal Capacity of the State	DE#	SSE	CE	
All States Average Per capita Expenditure 2005-06	3010	1490	692	
Jharkhand's per Capita expenditure (Amount in Rs) in 2005-06	3533	1223	623	
Adjusted per Capita** Expenditure (Amount in Rs) in 2005-06	NR	1451	674	
All States' Average per capita expenditure 2008-09	5030	2520	1254	
Jharkhand's Per Capita Expenditure (Amount in Rs) in 2008-09	3686	2217	1004	
Adjusted Per Capita** Expenditure (Amount in Rs) in 2008-09	NR	NR	NR	
* As per cent of GSDP ** Calculated as per the methodology explained in the Appendix 1.2 AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure. Population of Jharkhand 2.95 crore in 2005-06 and 3.04 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: <a href="http://www.censusindia.gov.in">http://www.censusindia.gov.in</a> ) Population = Average of Projected population for 2005 and 2006. NR = No adjustment required since the State is giving adequate fiscal priority. Data for Arunachal Pradesh has been included in the All States average .				

(Source: Finance Accounts of Government of Jharkhand)

In **Table 1.6**, we are comparing fiscal priority given to various categories of expenditure and the fiscal capacity of the State in 2005-06 (the first year of the award period of TFC) and in the current year i.e. 2008-09.

### Fiscal Priority

In 2005-06, adequate fiscal priority to Aggregate Expenditure (AE) and Development Expenditure (DE) was given by the State since, AE/GSDP and DE/AE in the case of Jharkhand was higher than the national average while priority given to Social Sector Expenditure (SSE) and Capital Expenditure (CE) was not adequate, as the SSE/AE (25.62 per cent) and CE/AE (13.06 per cent) were lower than the national average of 30.41 per

cent and 14.13 per cent respectively. In 2008-09, adequate priority for all categories of expenditure was given by the State as the AE/GSDP, DE/AE, SSE/AE and CE/AE were more than the national average.

### Fiscal Capacity

In 2005-06, per capita expenditure of DE (Rs 3533) was higher than the national average of Rs 3010. The per capita SSE and CE were Rs 1223 and Rs 623 against national average of Rs 1490 and Rs 692 respectively. Had the Government spent as much on SSE and CE as the national average, the adjusted per capita expenditure on SSE and CE would have been higher at Rs 1451 and Rs 674 respectively (calculated as per the methodology given in **Appendix 1.2**). However, even then, the adjusted per capita expenditure on SSE and CE was lower than the national averages, indicating a need for greater priority as well as more effective implementation of expenditure on the social sector and in the creation of capital assets.

In 2008-09, the per capita expenditure on DE, SSE and CE of Jharkhand were less than the national average. However, significant increases were recorded in per capita SSE and CE in comparison to the expenditure on these services in 2005-06. The per capita expenditure in these two categories was closer to the national average in 2008-09 than what it was in 2005-06. In the case of per capita DE, however, the improvement over the years was marginal. Since the State was giving adequate priority to all categories of expenditure in 2008-09, it is not the lack of financial priority but the low absorptive capacity<sup>3</sup> in Jharkhand that seems to be a matter of concern.

#### 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<sup>4</sup>. Apart from improving the allocation towards development expenditure<sup>5</sup>, particularly in view of the fiscal space being created on account of the decline in debt servicing in the recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure being spent on operation and maintenance of the existing Social and Economic Services.

<sup>3</sup> 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 designs of schemes are well planned with a careful risk mitigation strategy in place, administrative costs are low, operation, maintenance, monitoring and control mechanisms are in place etc., so that it is possible to effectively achieve targeted outcomes.

<sup>4</sup> *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.

<sup>5</sup> *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.*

The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.7** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted amounts and expenditure during the previous years, **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.

**Table 1.7: Development expenditure**

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE*	Actuals
<b>Development Expenditure (a to c)</b>						
a. Development Revenue Expenditure	4033 (42)	4913 (34)	5252 (46)	6224 (42)	8820	7918 (46)
b. Development Capital Expenditure	1313 (14)	1763 (12)	1389 (12)	2476 (17)	3714	2875 (17)
c. Development Loans and Advances	566 (6)	3731 (26)	397 (3)	586 (4)	515	411 (2)
Figures in parentheses indicate percentage to aggregate expenditure						
* Budget estimates are gross figures while actuals are net figures.						

(Source: Finance Accounts of Government of Jharkhand)

The DE of the State comprised revenue and capital expenditure including loans and advances on socio-economic services. Development revenue expenditure constituted the major share of this expenditure and ranged between 42 and 46 *per cent* of AE, except in 2005-06 (34 *per cent*). Capital expenditure had a lesser share and ranged from only 12 to 17 *per cent* of the AE of the State during 2004-09. The loans and advances by the State ranged from two to six *per cent* of AE except in 2005-06 (26 *per cent*). As a percentage of AE, the revenue expenditure during 2005-06 decreased from 42 *per cent* to 34 *per cent* over the previous year due to higher percentage of disbursement of loans and advances to the Jharkhand Electricity Board for making repayments of outstanding interest against bonds issued by the Board. The growth rate of developmental revenue expenditure increased from 18 *per cent* in 2007-08 to 27 *per cent* in 2008-09, whereas, the growth rate of developmental capital expenditure and developmental loans and advances decreased from 78 and 48 *per cent* to 16 *per cent* and 30 *per cent* respectively in 2008-09. Moreover, as depicted in the above table, all the above mentioned expenditure was much below the budgeted amounts.

**Table 1.8 –Efficiency of Expenditure Use in Selected Social and Economic Services**

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
<b>Social Services (SS)</b>						
General Education	1.18	44.80	-	1.28	46.98	00
Health and Family Welfare	25.43	58.67	-	27.56	49.38	0.06
WS, Sanitation, & HUD	57.55	21.40	-	69.68	28.86	7.53
<b>Total (SS)</b>	<b>16.35</b>	<b>32.35</b>	<b>-</b>	<b>20.10</b>	<b>33.70</b>	<b>0.47</b>
<b>Economic Services (ES)</b>						
Agri. & Allied Activities	1.17	47.51	-	1.93	47.46	0.14
Irrigation and Flood Control	81.17	93.72	-	52.12	93.73	2.18
Power & Energy	-	-	-	-	-	00
Transport	52.78	18.86	-	62.23	18.87	11.34

<b>Total (ES)</b>	<b>45.52</b>	<b>31.03</b>	<b>-</b>	<b>37.51</b>	<b>31.02</b>	<b>1.72</b>
<b>Total (SS+ES)</b>	<b>28.45</b>	<b>32.21</b>	<b>-</b>	<b>26.63</b>	<b>32.84</b>	<b>0.87</b>
TE: Total Expenditure of that sector; 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 -05- Maintenance and Repairs..						

(Source: Finance Accounts of Government of Jharkhand)

### Expenditure on Social Services

- Expenditure on Social Services increased steadily by 145 *per cent* from Rs 2750 crore in 2004-05 to Rs 6740 crore in 2008-09, ranging between 26 and 41 *per cent* of the total expenditure during 2004-09.
- During 2008-09, the expenditure on Social Services increased by 32 *per cent* (Rs 1651 crore) over the previous year. Increase in expenditure of Rs 1651 crore on Social Services during 2008-09 was shared by an increase of Rs 983 crore under the education sector, Rs 258 crore under the health sector and Rs 311 crore under water supply and sanitation.
- Out of the total expenditure on Social Services during 2004-09, 50 to 52 *per cent* was incurred on education, sports, arts and culture, 10 to 16 *per cent* on health and family welfare and 10 to 15 *per cent* on water supply and sanitation, housing and urban development.

### Expenditure on Economic Services

- The expenditure on Economic Services increased by 56 *per cent* from Rs 2597 crore in 2004-05 to Rs 4053 crore in 2008-09, ranging between 22 *per cent* and 29 *per cent* of the total expenditure in 2004-09. It constituted 38 *per cent* of the developmental expenditure during 2008-09.
- Out of the total expenditure on Economic Services the percentage of expenditure on agriculture and allied activities was the same at 16 *per cent* during 2007-08 and 2008-09, whereas, the expenditure on other Economic Services increased significantly from 40 *per cent* in 2007-08 to 46 *per cent* in 2008-09.
- Expenditure on irrigation and flood control, energy and power and transport decreased during 2008-09 to 11 *per cent*, five *per cent* and eight *per cent* respectively.
- The percentage of sector-wise capital expenditure to sector-wise total expenditure on Social Services increased during 2008-09 over the previous year, whereas, in different sectors of Economic Services, it decreased except on transport, which recorded an increase of 9.45 *per cent* in 2008-09 over the previous year.
- The salary component in Revenue Expenditure in different sectors of Social and Economic Services remained almost the same during 2007-08 and 2008-09.
- During 2008-09, the State Government spent only Rs 65.75 crore under the revenue account under the detailed head- "05-Maintenance and Repairs to maintain public assets". The corpus of assets, being maintained with Rs 65.75 crore is large and the limited allocation of funds may not suffice to keep the assets in good state of repair.

## 1.6 Financial analysis of Government expenditure and investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but 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 returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous years.

### 1.6.1 Incomplete projects

Department-wise information pertaining to incomplete projects as on 31 March 2009 is given in **Table 1.9**.

**Table 1.9: Department-wise Profile of Incomplete Projects.**

*(Rupees in crore)*

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects*	Cost Over Runs	Cumulative actual expenditure as on 31.3.2009
Road Construction Department	42	16848	-	-	11354
Drinking Water and Sanitation Department	6	3280	-	-	2063
Irrigation	24	37177	43167	-	23765
<b>Total</b>	<b>72</b>	<b>57305</b>	<b>4369</b>	<b>--</b>	<b>37182</b>

\* Indicates the Revised total cost of the projects as per the last revision by the State Government.

(Source: Finance Accounts of Government of Jharkhand)

- The 72 incomplete projects pertain to the Road Construction Department (42), Public Health and Engineering Department (6) and the Irrigation Department (24).
- Target dates of completion of the incomplete projects given in the **Table 1.9** were from December 2003 to December 2008, whereas the completion dates of most of the projects of Irrigation Department were extended up to 2008-09 and 2009-10.
- The total investment in 72 projects as on 31.03.2009 amounted to Rs 37182 crore against the estimated cost of Rs 57305 crore of which Rs 23765 crore was invested in 24 projects under the Irrigation Department.

### 1.6.2 Investment and returns

As of 31 March 2009, the Government had invested Rs 112.47 crore in nine Government companies (Rs 38.77 crore) and 14 co-operatives, banks and societies (Rs 73.70 crore) since the inception of the new State (**Table 1.10**). The average return on this investment was reported to be 'nil' in the last three years while the Government paid an average interest rate of 7.70 per cent on its borrowings during 2007-2009.

**Table 1.10: 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)	18.05	25.05	28.70	98.96	112.47
Return (Rs in crore)	1.00	Nil	Nil	Nil	Nil
Return ( per cent)	6.00	Nil	Nil	Nil	Nil
Average rate of interest on Govt. borrowing ( per cent)	6.56	7.55	8.20	7.97	7.42
Difference between interest rate and return ( per cent)	0.56	7.55	8.20	7.97	7.42

(Source: Finance Accounts of Government of Jharkhand)

An investment of Rs 13.51 crore (12 per cent) was made during 2008-09 mainly in the Lac Production and Marketing Union (Rs 2.00 crore), South Chotanagpur Tribal Co-operative Fruits and Vegetable Development Union (Rs 2.00 crore), the Forest Produce Marketing and Development Co-operative Union (Rs 2.00 crore) and the Integrated Child Development Programme, financed by National Co-operative Development Corporation (Rs 4.50 crore). In the absence of up to date accounts of major companies, it is difficult to make comments/observations on their financial position especially regarding their accumulated losses. Investments in these institutions as well as statutory corporations and joint stock companies up to 14 November 2000 by the composite Bihar State have not been apportioned between the successor States of Bihar and Jharkhand.

### 1.6.3 Departmental Commercial Undertakings

Activities of quasi-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annual proforma accounts showing the results of financial operations so that Government can assess the results of their working.

There were 29 such units under various departments viz. Agriculture (19), Forest (6), Animal Husbandry (1), Health (1) and Finance (1) in the State which were required to prepare proforma accounts annually. However, no information regarding preparation of proforma accounts by these units was made available as of September 2009. Audit of eight concerned units, conducted during 2000-07, also revealed that they had not prepared any proforma accounts since their inception.

### 1.6.4 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, the Government has also been providing loans and advances to many of these institutions/ organisations. **Table 1.11** presents the outstanding loans and advances as on 31 March 2009, 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.**

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2005-06	2006-07	2007-08	2008-09

(Rupees in crore)

Opening Balance	1330	5067	5462	6016
Amount advanced during the year	3747	411	598	418
Amount repaid during the year	10	16	44	19
<b>Closing Balance</b>	<b>5067</b>	<b>5462</b>	<b>6016</b>	<b>6415</b>
<i>Of which</i> Outstanding balance for which terms and conditions have been settled				
Net addition	3737	395	553	399
Interest Receipts	71	38	87	110
Interest Receipts as a percentage of outstanding Loans and advances	2.24	0.72	1.52	1.77
Interest Payments as a percentage of outstanding fiscal liabilities of the State Government.	9.20	8.77	8.57	8.26
Difference between Interest Payments and Interest Receipts ( <i>per cent</i> )	(-) 6.96	(-)8.05	(-)7.05	(-) 6.5

(Source: Finance Accounts of Government of Jharkhand)

- The quantum of loans advanced to co-operative societies, companies etc. by the State decreased from Rs 597.66 crore in 2007-08 to Rs 418.19 crore in 2008-09. The decrease was mainly due to decrease in loans and advances (Rs 185.22 crore) to the Jharkhand State Electricity Board during 2008-09 which was partly offset by increase in loans and advances to other institutions (Rs 10.05 crore) during the year.
- The total interest receipts during 2008-09 were contributed in the form of interest income which accrued to the Government on the cash balances held with Reserve Bank of India (Rs 109.05 crore). Interest receipts on loans advanced by the Government to institutions/ organizations, therefore turned out to be `nil` although the Government borrowed funds at the rate of 7.42 *per cent* during the current year. The TFC had recommended that interest receipts on loans of the Government should gradually increase to seven per cent by the end of the award period (2009-10), against which the interest receipts stood only 1.76 *per cent* of the outstanding loans during 2008-09, needing appropriate corrective action.
- The repayment of outstanding loans and advances was very poor ranging between 0.3 *per cent* and 0.8 *per cent* of the total outstanding loans and advances during 2004-09. The Jharkhand State Electricity Board was the major defaulter in re-payment of debt-service obligations. Out of the total outstanding loans of Rs 6414.83 crore at the end of March 2009, Rs 5897.30 crore (92 *per cent*) was outstanding against the Electricity Board and Rs 447.24 crore was outstanding with urban local bodies.

### 1.6.5 Cash balances and investment of cash balances

Details of cash balances and investments made by the State Government during the year are shown in **Table 1.12**.

**Table-1.12: Cash Balances and Investment of Cash balances**

(Rupees in crore)

Particulars	As on 1 <sup>st</sup> April 2008	As on 31 <sup>st</sup> March 2009	Increase/ Decrease
Cash Balances			
Investments from Cash Balances (a to d)	1471.05	978.99	(-)492.06
a. GOI Treasury Bills	1466.64	974.58	(-)492.06
b. GOI Securities	-	-	-

c. Other Securities, if any specify	-	-	-
d. Other Investments	4.41	4.41	0
Fund-wise Break-up of Investment from Earmarked balances (a to c)	-	-	-
Interest Realized	81.57	109.05	

(Source: Finance Accounts of Government of Jharkhand)

- During 2008-09, the major part of the cash balances (99.5 per cent) was invested in GOI Treasury Bills at an interest rate of five per cent, which was lesser than the interest paid (7.42 per cent) by the State, on its borrowings. Therefore, had the cash balance been invested at market rates the State could have benefited in the shape of interest receipts which could have been more than 50 per cent of the interest earned on investments in GOI treasury bills during the period. Moreover, it would have been prudent on the part of the State to repurchase the high cost market loans of the State on which the State Government has to bear interest up to 13 per cent per annum instead of investing the cash balances in GOI treasury bills.
- The efficiency of handling of cash balances by the State can also be assessed by monitoring the trends in the monthly daily averages of cash balances held by the State to meet its normal banking transactions. **Table 1.13** presents the trends in monthly average daily cash balances and the investments in Auction Treasury Bills for the last three years (2006-09).

**Table 1.13: 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 day Treasury Bills		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
April	N/A	N/A	1.93	NIL	2346.24	3153.08
May	N/A	N/A	1.07	1366.35	3205.58	3572.76
June	N/A	N/A	0.46	1172.95	3707.34	4428.28
July	N/A	N/A	0.45	1026.84	3697.37	4886.73
August	N/A	N/A	0.45	674.73	4171.05	4856.41
September	N/A	N/A	0.46	600.01	3396.37	4459.83
October	N/A	N/A	3.81	630.94	2387.88	3411.12
November	N/A	N/A	3.18	1620.76	2764.40	3104.91
December	N/A	N/A	0.46	2266.76	2709.92	4078.24
January	N/A	N/A	0.45	2735.89	3714.81	4178.74
February	N/A	N/A	0.46	2755.67	4433.06	4518.73
March	N/A	N/A	15.80	4047.57	4580.35	5842.17

- The Government of Jharkhand is required to maintain at any time, a minimum balance of Rs 0.45 crore in RBI. As given in **Table 1.13** the daily cash balances were handled properly and only the required balances were kept to meet normal banking transactions. However, in March, the balance was a bit higher and could have been invested to realise interest. Every month during 2008-09, the State Government had a huge amount invested in 14 day GOI treasury bills on five per cent interest. Although, the State had a cash balance of Rs 978.99 crore at the end of March 2009 invested in GOI treasury bills, it borrowed Rs 1486 crore at an average interest rate of 7.42 per cent during the year

- Keeping huge balances in 14 day treasury bills pointed to inadequacies in the Government’s fund flow management system.

## 1.7 Assets and Liabilities

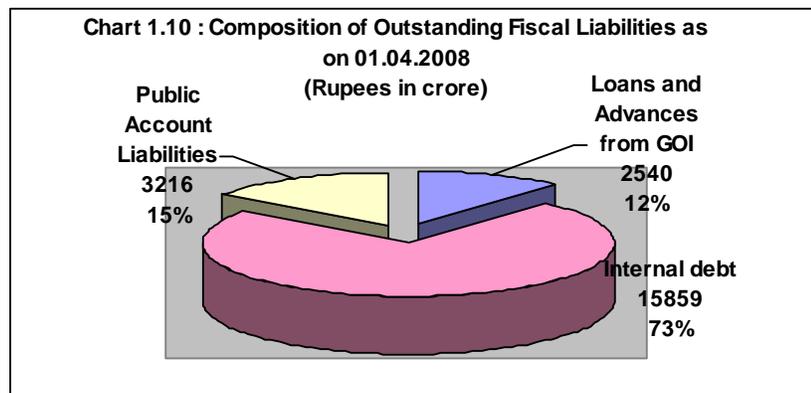
### 1.7.1 Growth and composition of assets and liabilities

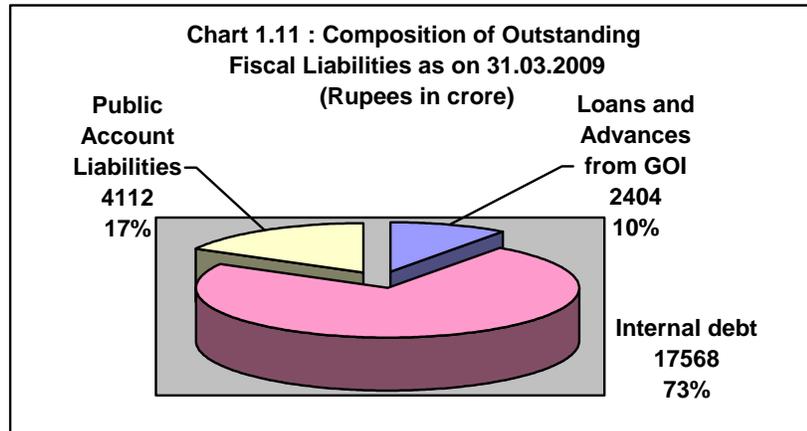
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities 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.

The Jharkhand FRBM Act 2007 defines the total liabilities of the State as the liabilities under the Consolidated Fund of the State and the Public Account of the State, which include loans and advances from the Central Government, open market borrowings, loans from financial institutions, public fund balances of Government employees, Reserve funds, Deposits etc.

### 1.7.2 Fiscal Liabilities

The trends of outstanding fiscal liabilities of the State are presented in **Appendix 1.3**. However the composition of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in **Chart 1.10** and **1.11**.





- The overall fiscal liabilities of the State increased consistently by 78 per cent from Rs 13512 crore in 2004-05 to Rs 24084 crore in 2008-09. The growth rate of fiscal liability was 11.4 per cent during 2008-09 over the previous year.
- Increasing liabilities raises the issue of sustainability of State Government finances. The ratio of fiscal liabilities to GSDP increased steadily from 26.3 in 2004-05 to 31.8 per cent in 2008-09. These liabilities stood at 1.8 times the revenue receipts and 4.2 times the State's own resources at the end of 2008-09.
- Apportionment of fiscal liabilities of the Composite State of Bihar between the successor States of Bihar and Jharkhand had not been done so far (September 2009).

### 1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of default by the borrowers for whom the guarantees are extended.

The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. However, no such law was passed by the State Legislature and no limit was fixed for guarantees given on the security of the Consolidated Fund of the State.

In Statement 6 of the Finance Accounts, no data has been given as no information in this regard was provided by the Government during 2008-09 and even earlier. However, the FCP of the State revealed that at the end of March 2009, Rs 530 crore was outstanding in the shape of guarantees given by the Government. No further details were made available.

The TFC had recommended the setting up of a Sinking Fund, to be maintained outside the Consolidated Fund of the State and the Public Account, for amortization of all loans including loans from banks, liabilities on account of NSSF etc. However, no such fund had been set up till date.

No off-budget borrowings under Article 293 of the Constitution of India were made by the State during the last three years.

## 1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability<sup>6</sup> of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation<sup>7</sup>; sufficiency of non-debt receipts<sup>8</sup>; net availability of borrowed funds<sup>9</sup>; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.16** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2006-07.

**Table 1.16: Debt Sustainability: Indicators and Trends**

Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Deficit)	129	(-4494)	1814	(-10)	(-1011)
Sufficiency of Non-debt Receipts (Resource Gap)	(-1343)	(-3386)	4693	(-1033)	(-1171)
Net Availability of Borrowed Funds	1800	2429	444	439	583
Burden of Interest Payments (IP/RR Ratio)	17	17	16	15	14
Maturity Profile of State Debt (In Years)*					
0 - 1	*	*	*	5	775(4)
1 - 3	*	*	*	1850(10)	2508(13)
3 - 5	*	*	*	2689(15)	2829(14)
5 - 7	*	*	*	2771(15)	2635(13)
7 and above	*	*	*	11084(60)	11225(56)
<b>Total</b>	*	*	*	<b>18399</b>	<b>19972</b>

\* *Figures not available.*  
Percentage to total are shown in brackets.

- As may be seen from the above table, the quantum spread together with the primary deficit was positive during 2004-05 and 2006-07 but turned to negative during 2005-06, 2007-08 and 2008-09 showing an ascending trend in the debt-GSDP ratio, which indicated that the debt had become unsustainable.

<sup>6</sup> Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time. It 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 a balance between costs of additional borrowings and returns from such borrowings. It means that a rise in fiscal deficit should match the increase in capacity to service the debt.

<sup>7</sup> A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or the cost of public borrowings, the debt-GDP ratio is likely to be stable provided the 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), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, debt-GSDP ratio would be constant or the debt would stabilize eventually. On the other hand, if the primary deficit together with the 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.

<sup>8</sup> Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

<sup>9</sup> Defined as the ratio of debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which debt receipts are used in debt redemption indicating the net availability of borrowed funds.

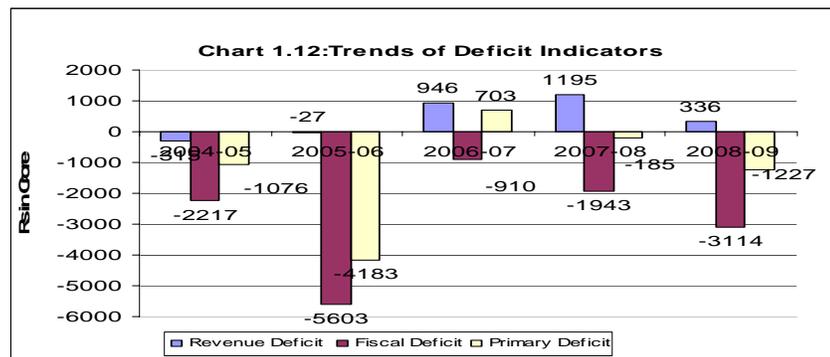
- The ratio of fiscal liabilities to GSDP increased consistently from 26.3 in 2004-05 to 31.8 in 2008-09. In 2005-06, the quantum spread was negative and the primary deficit was at its highest level. During 2008-09, the quantum spread was positive but the primary deficit increased from (-) Rs 185 crore in 2007-08 to (-) Rs 1227 crore, resulting in the highest ever debt-GSDP ratio of 31.8 *per cent* in 2008-09.
- Against a positive resource gap of Rs 4693 core in 2006-07, the resource gap of the State during 2007-08 was (-) Rs 1,033 crore, which further increased to (-) Rs 1,171 crore, which indicated instability in the States fiscal position.
- The ratio of interest payments to revenue receipts showed some improvement as it declined from 17 *per cent* in 2004-05 to 14 *per cent* in 2008-09.
- The maturity profile of the State shows that the debt liability was increasing for every block period which is indicative of increasing debt liabilities in future.
- The State needs to improve the position in the ensuing years by strictly adhering to the policies adopted in its FRBM Act and its Fiscal Correction Path.

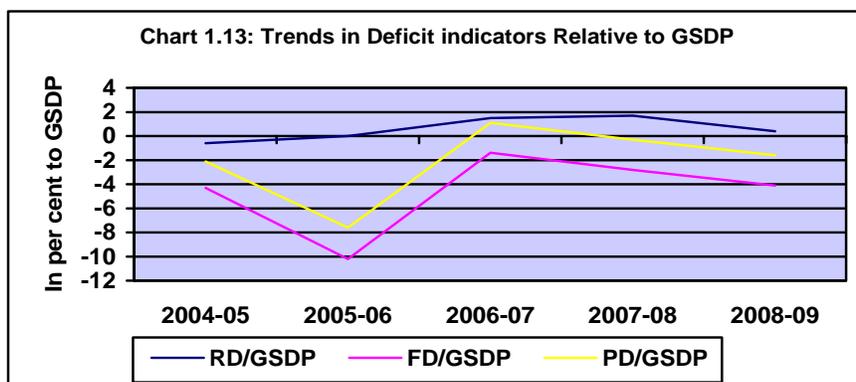
## 1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of the 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 ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the manner of financing of these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis the targets set under the FRBM Act/Rules for the financial year 2008-09.

### 1.9.1 Trends in Deficits

Chart 1.12 and 1.13 present the trends of deficit indicators over the period 2004-09.





- The State had a revenue surplus for the last three years. However, the quantum of revenue surplus decreased from Rs 1195 crore in 2007-08 to Rs 336 crore in 2008-09. Though the State achieved the target of reducing the revenue deficit to 'nil' much before the time line given in FRBM Act of the State and the TFC, it had not achieved the revenue surplus of Rs 2200 crore targeted by its FCP.
- The fiscal deficit of the State increased from Rs 910 crore in 2006-07 to Rs 1943 crore in 2007-08 and further increased to Rs 3114 crore in 2008-09. During 2008-09, the percentage of fiscal deficit to GSDP was four at the end of March 2009 against the FRBM target and TFC norm of three per cent on that date.
- Against the primary surplus of Rs 703 crore in 2006-07 there was a primary deficit of Rs 185 crore in 2007-08 which further increased to primary deficit of Rs 1227 crore at the end of 2008-09. It was 1.6 per cent of GSDP against the estimate of primary surplus of three per cent of GSDP by the end of March 2008 depicted in the FRBM Act, 2007.
- About 81 per cent of the total expenditure was met from revenue receipts during 2008-09 as against 86 per cent in 2007-08 indicating increase in the State's dependency on borrowings, especially for meeting its capital expenditure on expansion of its development activities.

### 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 **Table 1.17**.

**Table 1.17: Components of Fiscal Deficit and its Financing Pattern**

*(Rupees in crore)*

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
<b>Decomposition of Fiscal Deficit</b>						
1	Revenue Deficit	(-)315	(-)27	946	1195	336
2	Net Capital Expenditure	1333	1839	1461	2584	3051
3	Net Loans and Advances	569	3737	395	554	399
<b>Financing Pattern of Fiscal Deficit*</b>						
1	Market Borrowings	453	241	262	921	1238(1.64)
2	Loans from GOI	513	(-)145	(-)145	(-)161	(-)136
3	Special Securities Issued to NSSF	(-)157	1634	1214	125	54(0.1)
4	Loans from Financial Institutions	(-)1	47	143	602	1348(1.78)

5	Small Savings, PF etc	17	212	229	162	200(0.26)
6	Deposits and Advances	87	358	396	625	799(1.06)
7	Suspense and Misc	(-)805	1790	(-)722	(-)447	709(0.94)
8	Remittances	75	(-)89	(-)85	(-)146	(-)11
9	Others	(-)2399	(-)9651	(-)2201	(-)3624	(-)7315
10	Overall Surplus/Deficit	(-)2217	(-)5603	(-)910	(-)1943	(-)3114

Figures in brackets indicate the percentage with respect to GSDP.

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

(Source: Finance Accounts of Government of Jharkhand)

During 2008-09 the fiscal deficit of Rs 3114 crore was mainly met out from market borrowings (Rs 1238 crore) and loans from other financial institutions (Rs 1348 crore) thus increasing the interest burden for the future.

### 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) 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, a 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 the borrowings (fiscal liabilities) did not have any asset backup. Bifurcation of the primary deficit (Table 1.18) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable for improving the productive capacity of the State's economy.

Table 1.18: Primary deficit/surplus – bifurcation of factors

(Rupees in crore)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue Deficit (-) / Surplus (+)	Primary Deficit (-) / Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (3-6)	8 (2-6)
2004-05	6669	5835	1333	577	7745	(-) 1910	(-) 1076
2005-06	8474	7071	1839	3747	12657	(-) 5586	(-) 4183
2006-07	10026	7451	1461	411	9323	(-) 1872	(+) 703
2007-08	12071	9074	2584	598	12256	(-) 3182	(-) 185
2008-09	13232	10990	3051	418	14459	(-) 3469	(-)1227

(Source: Finance Accounts of Government of Jharkhand)

- During 2004-05 to 2008-09, the non-debt receipts of the State increased from Rs 6669 crore to Rs 13232 crore against a corresponding increase in primary revenue expenditure, capital expenditure and primary expenditure.
- However, the surplus receipts were not enough to meet the expenditure requirement under the capital account resulting in primary deficits during the period 2004-09 (except 2006-07).
- These trends indicate the extent to which the primary deficit has been on account of enhancement of capital expenditure which to some extent may be desirable for improving the productive capacity of the State's economy.

### 1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which 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 1.19** presents the changes in revenue receipts of the State and the correction of deficit during the last three years.

**Table 1.19: Changes in Revenue Receipts and Correction of Deficit**

Parameters	2006-07	2007-08	(Per cent of GSDP)	
			BE*	Actual
<b>Revenue Receipts (a to d)</b>	10010	12027	15782	13213(-16)
a. State's Own Tax Revenue	3189	3474	5536	3753(-32)
b. State's Own Non- tax Revenue	1250	1601	2913	1952(-33)
c. State's Share in Central Taxes and Duties	4051	5110	5276	5392(+2)
d. Grants-in-Aid	1520	1842	2058	2116(+3)
<b>Revenue Expenditure</b>	9064	10832	13582	12877(-5)
<b>Revenue Deficit/Surplus</b>	946	1195	2200	336(-85)
<b>Fiscal Deficit/Surplus</b>	(-) 910	(-) 1943	(-)2286	(-)3114(+36)

\* Budget estimates are gross figures as no net budget was available after deduction of recoveries.

(Source: Finance Accounts of Government of Jharkhand)

**Table 1.9** shows that the revenue receipts and the components of the same increased during 2006-09 but the target set in the FCP of the State under the FRBM Act, 2007 to improve the fiscal position was not achieved. During 2008-09, the revenue expenditure increased by 19 *per cent*, whereas, revenue receipts recorded only 10 *per cent* increase over the previous year during the period, which led to a decrease in revenue surplus. The revenue surplus which increased from Rs 946 crore in 2006-07 to Rs 1195 crore in 2007-08, decreased to Rs 336 crore in 2008-09. The revenue surplus was less by Rs 1864 from the estimated Rs 2200 crore, given in the FCP for the year 2008-09.

The fiscal deficit was increasing consistently from (-) Rs 910 crore in 2006-07 to (-) Rs 3114 crore in 2008-09. In 2008-09, it was in excess of Rs. 828 crore against the FCP estimate of Rs 2286 crore, due to an increase in interest payments and capital expenditure during the period.

## 1.10 Conclusion

The State has achieved the target of reducing its revenue deficit to zero, much before the time line given in FRBM Act. The State had a revenue surplus of Rs 336 crore in 2008-09 which was much lesser than the target of Rs 2200 crore set by the FCP. Primary deficit increased from Rs 185 crore in 2007-08 to Rs 1227 crore in 2008-09. The fiscal deficit of the state was four *per cent* at the end of March 2009 against the FRBM target and TFC norm of three *per cent*.

Non-Plan Revenue Expenditure constituted 70 *per cent* of revenue expenditure. It significantly exceeded both the normative projection of TFC and the FCP target.

The expenditure on salaries constituted 30 *per cent* of revenue receipts and 31 *per cent* of revenue expenditure during 2008-09, which was within the

limits of the TFC targets (32 *per cent*) and the FCP norms (28 *per cent*). The expenditure on pension increased to Rs 988 crore in 2008-09. The increase was 21 *per cent* over the previous year against the TFC norms of 10 *per cent*. In 2008-09 subsidy of Rs 36.58 crore and Rs 0.07 crore was given for agriculture and allied activities and industries and minerals respectively.

Capital expenditure consumed 13 to 19 *per cent* of the total expenditure. It increased by Rs 467 crore over the previous year.

As of 31 March 2009, the Government had invested Rs 112.47 crore in nine Government companies (Rs 38.77 crore) and 14 cooperative banks and societies (Rs 73.70 crore) since the inception of the new State. The average returns on these investment was 'nil' in the last three years while the Government paid an average interest rate of 7.70 *per cent* on its borrowings during 2007-09.

Investments in financial institutions as well as Statutory Corporations and joint stock companies up to 14 November 2000 by the composite Bihar State have not been apportioned between the successor States of Bihar and Jharkhand. Overall fiscal liabilities increased to Rs 24084 crore in 2008-09, with a growth rate of 11.4 *per cent* over the previous year. Increasing liabilities raised the issue of sustainability of State Government Finances. Apportionment of fiscal liabilities of the composite Bihar State between successor States of Bihar and Jharkhand has also not been done so far.

At the end of 31 March 2009, there were 72 incomplete projects involving Rs 37182 crore.

### 1.11 Recommendations

- Although the State has already achieved the target laid down in its FRBM Act to reduce the revenue deficit to zero and generate revenue surplus the State has to put in concerted efforts to maintain its fiscal deficit within the FRBM target.
- There is a need to initiate suitable measures to compress Non Plan Revenue Expenditure and to mobilize additional resources, both through tax and non-tax sources and to clear the backlog in assessments to avoid loss of revenue.
- The State has given adequate fiscal priority to capital expenditure which has to be maintained in future too.
- Regarding returns on Government investments, the Government should hasten to seek better value for money in investments. Otherwise increasing fiscal liabilities accompanied by negligible rate of returns in investments might lead to a situation of unsustainable debt.
- The State has to address to the issues of incomplete projects and make efforts to overcome inadequacies to avoid further cost and time overruns.