

CHAPTER I

Finances of the State Government

1.1 Introduction

Madhya Pradesh is an agrarian landlocked State and also one of the leading States in the country in mineral production. The composite State of Madhya Pradesh was founded on 1 November 1956. In terms of the Madhya Pradesh Reorganization Act 2000 (No.28 of 2000)¹, 16 districts of the erstwhile State of Madhya Pradesh formed the new State of Chhattisgarh on 1 November 2000. As indicated in **Appendix-1.1**, Madhya Pradesh has higher poverty levels as compared to the all-India average. The density of its population (196 persons per sq. km) as per the 2001 census was lower than 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 of its Gross State Domestic Product for the period 2000-01 to 2008-09 has been 10.14 *per cent* as compared to 12.50 *per cent* in other General Category States. During this period, its population grew by 16.87 *per cent* against 13.42 *per cent* in other General Category States. The Gini coefficient² shows that the inequality of income distribution in case of rural areas of Madhya Pradesh was less than the all-India average but more in case of urban areas.

This chapter provides a broad perspective of the finances of the Government of Madhya Pradesh during 2009-10 and analyses the critical changes observed in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure and form of Government Accounts and the layout of the Finance Accounts are depicted in **Appendix-1.2-Part-A and B**. The apportionment of assets and liabilities of the composite State of Madhya Pradesh prior to the date of reorganization as well as other financial adjustments are carried out in accordance with the provisions of the Act³. The actual progress achieved in this direction is indicated in **Appendix-1.2-Part-C**. The methodology adopted for the assessment of the fiscal position and norms/ceilings prescribed by the Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 and trends in select indicators are depicted in **Appendix-1.3- Part-A, B and C**.

1.1.1 Summary of Current Year's Fiscal Transactions

A summary of the State Government's fiscal transactions during the current year (2009-10) vis-à-vis the previous year is presented in **Table-1.1**.

¹ Bastar, Bilaspur, Dantewara, Dhamtari, Durg, Janjgir-Champa, Jashpur, Kanker, Kawardha, Korba, Korla, Mahasamund, Raigarh, Raipur, Rajnandgaon and Surguja.

² It is a measure of inequality of income distribution where zero refers to perfect equality and one refers to perfect inequality.

³ *ibid*

Appendix-1.5-Part-A 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 Transactions

(₹ in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-A: Revenue							
					Non-Plan	Plan	Total
33,577.21	Revenue Receipts	41,394.70	29,513.88	Revenue expenditure	26,059.22	9,837.68	35,896.90
13,614.05	Tax revenue	17,272.81	10,162.34	General services	11,889.97	123.81	12,013.78
3,342.86	Non-tax revenue	6,382.04	10,145.94	Social services	7,249.73	5,712.12	12,961.85
10,766.59	Share of Union Taxes/ Duties	11,076.98	7,431.16	Economic services	4,719.15	3,652.22	8,371.37
5,853.71	Grants from Government of India	6,662.87	1,774.44	Grants-in-aid and Contributions	2,200.37	349.53	2,549.90
Section-B: Capital							
24.00	Misc. Capital Receipts	21.69	6,713.15	Capital Outlay	61.05	7,863.82	7,924.87
53.62	Recoveries of Loans and Advances	23.37	1,861.46	Loans and Advances disbursed	3,769.63	47.25	3,816.88
0.79	Inter-State settlement	2.76	0.73	Inter-State settlement			2.78
6,552.97	Public Debt receipts*	8,602.51	1,961.01	Repayment of Public Debt*			2,394.05
--	Contingency Fund	--	--	Contingency Fund			--
46,460.26	Public Account receipts	52,353.12	45,988.97	Public Account disbursements			50,871.84
1,792.45	Opening Cash Balance	2,422.10	2,422.10	Closing Cash Balance			3,912.93
88,461.30	Total	1,04,820.25	88,461.30	Total			1,04,820.25

* Excluding net transactions under Ways and Means advances and overdrafts.

(Source: State Finance Accounts of the respective years)

The following are the major changes during 2009-10 over the previous year:

- Revenue receipts increased by 23 per cent mainly due to increase in the State's own tax revenue by 27 per cent, non-tax revenue by 91 per cent, State's share of Union taxes and duties by three per cent and grants from Government of India (GOI) by 14 per cent. The State also received debt relief of ₹363.06 crore under the Debt Consolidation and Relief Facility (DCRF) from GOI.
- Revenue expenditure increased by 22 per cent {(Non-Plan: 19 per cent and Plan: 29 per cent)} and Capital expenditure increased by 18 per cent (Non-Plan decreased by 71 per cent and Plan increased by 21 per cent).
- The recovery of loans and advances decreased by 56 per cent during the current year as compared to the previous year mainly due to decrease under Loans for Industries and Minerals (₹17 crore) and Water Supply, Sanitation and Urban Development (₹10 crore). Disbursement of loans and advances by the State Government increased by ₹1,955 crore mainly on account of loans under power projects (₹1,989 crore) and Miscellaneous General Services (₹18 crore), partly offset by decrease under Water Supply, Sanitation, Housing and Urban Development (₹33 crore) and Transport (₹19 crore).
- Public debt receipts and repayments increased by 31 per cent and 22 per cent respectively in 2009-10 over the previous year. The increase in public debt receipts was mainly due to increase in internal debt by ₹1,859 crore and loans and advances by GOI (₹191 crore).
- Public Account receipts and disbursements increased by ₹5,893 crore and ₹4,883 crore respectively in 2009-10 relative to the previous year resulting in a net increase of ₹1,010 crore.

- As a result of inflow/outflow of the funds stated above, the cash balances of the State at the close of 2009-10 increased by ₹1,491 crore over the previous year.

1.1.2 Review of the Fiscal Position

In response to the Twelfth Finance Commission's (TFC) recommendation, the Government of Madhya Pradesh enacted its FRBM Act, 2005 which came into force from 1 January 2006 with a view to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal deficit, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework.

- An increase of 22 per cent in revenue expenditure during 2009-10 in comparison to that of 23 per cent increase in revenue receipts resulted in an increase in the revenue surplus from ₹4,063 crore in 2008-09 to ₹5,498 crore in 2009-10.
- Given an increase of ₹1,435 crore in the revenue surplus and decrease of ₹31 crore in non-debt capital receipts during the year accompanied by increase of ₹1,212 crore in capital expenditure and increase of ₹1,958 crore in the disbursement of loans and advances including inter-state settlement, there was an increase of ₹1,766 crore in the fiscal deficit in 2009-10 over the previous year.
- Given the increase in fiscal deficit (₹1,766 crore) as well as in interest payments (₹262 crore), the primary deficit of ₹241 crore in 2008-09 increased to ₹1,745 crore in 2009-10.
- The fiscal performance of the State vis-à-vis FRBM targets and those framed in the Mid-Term Fiscal Policy Statement (MTFPS) for the year 2009-10 is presented in **Table 1.2** below:

Table-1.2: Fiscal forecasts under FRBM Act and MTFPS

Fiscal forecasts	FRBM Targets	Projection as per MTFPS	Actual
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	To be wiped out by 2008-09	(+)1,699	(+) 5,498
Fiscal Deficit (-)/ Surplus (+) (₹ in crore)	To reduce to not more than 4 per cent of GSDP by 2009-10 (₹7777 crore)	(-) 6,436 (3.73 per cent of GSDP)	(-) 6,199 (3.19 per cent of GSDP)
Total Fiscal Liabilities (including guarantees)	40 per cent of GSDP by 31 March 2015	41.24 per cent of GSDP	35.74 per cent of GSDP
Outstanding Guarantees	Not to exceed 80 per cent of the total RR of preceding year	** per cent of RR of preceding year	4.85 per cent* of RR of preceding year

*To the extent information was available in Finance Accounts.

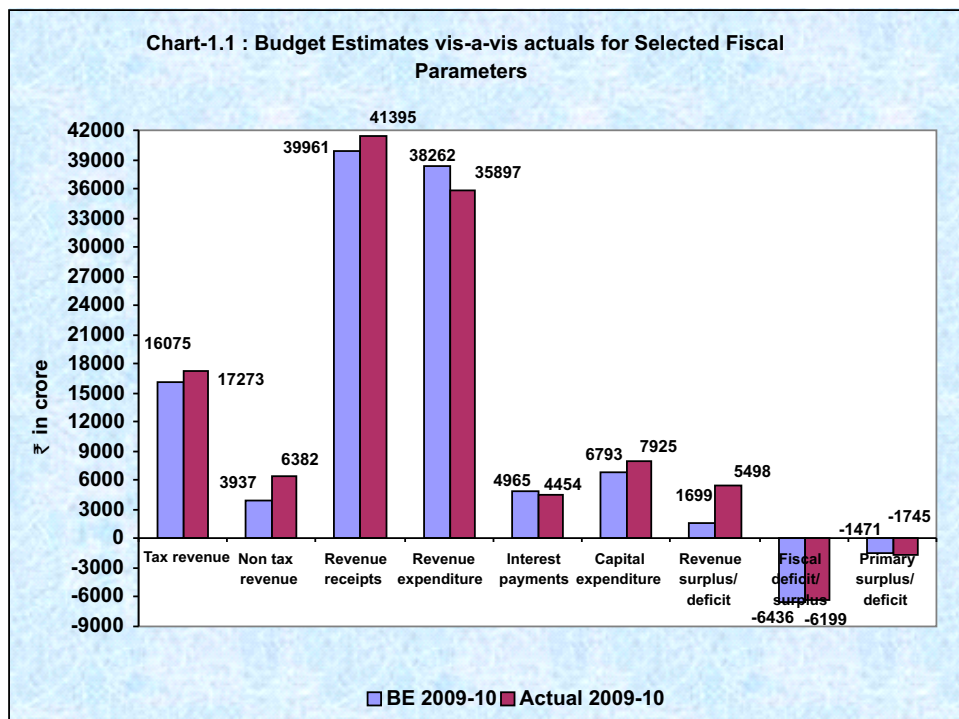
** BE figure of outstanding guarantees for 2009-10 not available

(Source: Statement laid before the legislature under FRBM Act during 2009-10 and State Finance Accounts of the respective years)

The State Government had achieved revenue surplus five years ahead of the scheduled period of 2008-09. The table above reveals that the fiscal deficit was within the amended limit of four *per cent* of GSDP prescribed in the FRBM targets/TFC and less than the 3.73 *per cent* of the projections of MTFPS. The total fiscal liabilities (including guarantees) to GSDP ratio at 35.74 *per cent* was within the FRBM target to be achieved by 31 March 2015 and was significantly less than the projected 41 *per cent* in MTFPS. The outstanding guarantees during the year were only 4.85 *per cent* of the revenue receipts of the preceding year.

The actual tax revenue and non-tax revenue was more than both the assessed levels of TFC and MTFPS while non-plan revenue expenditure (NPRE) in 2009-10 was more than the normatively assessed level of TFC but less than the projection made by the State Government in its MTFPS (Tables 1.6 and 1.10).

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters:



(Source: State Finance Accounts and Budget Estimates 2009-10)

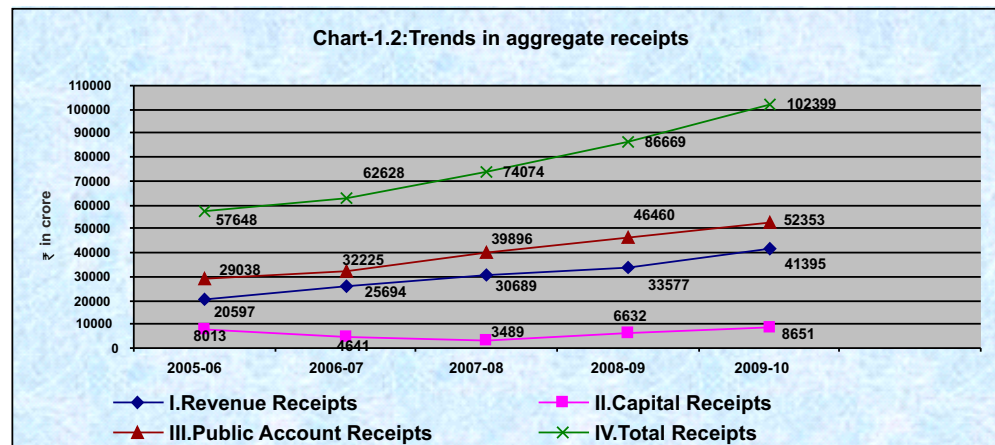
The key fiscal indicators viz revenue surplus and fiscal deficit showed improvement with reference to the budget estimates (BE) while primary deficit was more than the BE. Revenue expenditure and interest payments were well within the BE while capital expenditure and non-tax revenue were more than the BE. Tax revenue was more than the BE mainly due to more receipts under taxes and duties on electricity (₹1,147 crore), stamps duty and registration fees (₹223 crore) and State excise (₹192 crore), partly offset by less receipt under taxes on sales, trades etc. (₹288 crore) and

taxes on goods and passengers (₹127 crore). Capital expenditure was more than the BE mainly due to more expenditure under Power Projects (₹1,512 crore), partly offset by less expenditure under Major Irrigation (₹213 crore).

1.2 Resources of the State

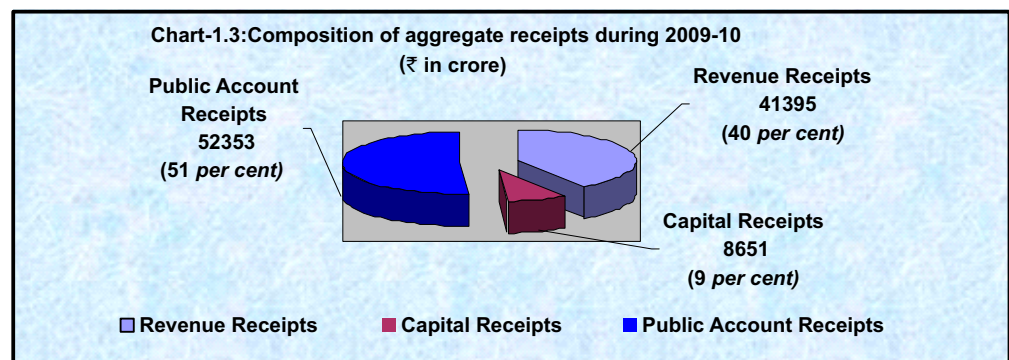
1.2.1 Resources of the State⁴ as per Annual Finance Accounts

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 of various components of the receipts of the State during 2005-10.



(Source: State Finance Accounts of the respective years)

Chart-1.3 depicts the composition of resources of the State during the current year.



(Source: State Finance Accounts of the respective years)

⁴ 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 GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans and borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from the Public Account.

- The revenue, capital and Public Account receipts constituted 40, nine and 51 per cent of the total receipts respectively during 2009-10. The total receipts of the State increased by 78 per cent during 2005-10 of which revenue receipts and capital receipts increased by 101 per cent and eight per cent.
- The relative share of revenue receipts in total receipts increased from 36 per cent in 2005-06 to 40 per cent in 2009-10 and the share of capital receipts in total receipts decreased from 14 per cent in 2005-06 to eight per cent in 2009-10. The increase in public debt receipts from ₹6,553 crore (7.56 per cent) in 2008-09 to ₹8,603 crore (8.40 per cent) in 2009-10 was due to an increase in market loans and GOI loans.
- Although the receipts under the Public Account increased at an annual growth rate of 16.06 per cent during the period 2005-10, their share in the total receipts of the State ranged between 50 per cent in 2005-06 to 51 per cent during 2009-10.

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 State implementing agencies⁵ for the implementation of various schemes/programmes in the social and economic sectors. 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, substantial funds directly transferred to State implementing agencies are presented in **Table-1.3**.

Table-1.3: Funds transferred directly to State Implementing Agencies in the State (funds routed outside State Budget)

(₹ in crore)

Sl. No	Implementing Agency/ Department in the State	Name of the Programme/ Scheme	GOI releases 2009-10
1.	Madhya Pradesh State Employment Guarantee, Bhopal	National Rural Employment Guarantee Scheme	2,863.19
2.	District Rural Development Agency, Bhopal		656.05
3.	Madhya Pradesh Rural Roads Development Authority, Bhopal	Pradhan Mantri Gram Sadak Yojana	1,350.24
4.	Madhya Pradesh Sarva Shiksha Abhiyan, Mission	Sarva Shiksha Abhiyan	1,057.49
5.	Rajiv Gandhi Shiksha Mission		75.00
6.	State Health Society	National Rural Health Mission Centrally Sponsored	424.61

⁵ State implementing agencies include any organizations/institutions including non-governmental organizations which are 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 Sarva Shiksha Abhiyan, State Health Mission for National Rural Health Mission etc.

Sl. No	Implementing Agency/ Department in the State	Name of the Programme/ Scheme	GOI releases 2009-10
7.	State Health Society (TB), Madhya Pradesh	National Rural Health Mission Centrally Sponsored	10.52
8.	State Health Society, Madhya Pradesh-NPCB	--do--	12.87
9.	SENTINEL Surveillance Unit (NPCB) MGM Medical College, Indore	--do--	0.03
10.	SWSM, Madhya Pradesh, Bhopal	Accelerated Rural Water Supply Scheme	252.29
11.	District Rural Development Agency, (All Districts)	Rural Housing-Indira Awas Yojana	242.99
12.	District Rural Development Agency, (All Districts)	Swaranjayanti Gram Swarozgar Yojana	137.18
13.	Program Manager, Bhartiya Samruddhi Investments, Bhopal		0.16
14.	District Rural Development Agency, (All Districts)	Integrated Watershed Management Programme	115.43
15.	Bhopal Watershed Cell Agency, Madhya Pradesh		4.41
16.	Rajiv Gandhi Mission for Watershed Management, Bhopal		4.50
17.	CRSP, Bhopal	Central Rural Sanitation Scheme	79.87
18.	SWSM Madhya Pradesh, Bhopal		20.00
19.	Madhya Pradesh Madhyamik Shiksha Abhiyan Samiti	Rashtriya Madhyamik Shiksha Abhiyan	92.58
20.	District Collector (All Districts)	MP Local Area Development Scheme	78.00
21.	State Institute of Agriculture Extension and Training	National Food Security Mission	59.33
22.	IMC Society of ITI (All Society)	Upgradation of 1396 Government ITI's through PPP	45.00
23.	IMC Society of Tribal Women ITI, Chhindwara		2.50
24.	Indian Institute of Information Technology, Jabalpur	Indian Institute of Information Technology, Jabalpur, DHE	41.00
25.	State Urban Development Agency, Madhya Pradesh	Swarn Jayanti Shahari Rojgar Yojana	40.88
26.	Maulana Azad National Institute of Technology, Bhopal	National Institute of Technology, DHE	39.15
27.	Madhya Pradesh Madhyamik Shiksha Abhiyan Samiti	Scheme for setting up of 6000 Model Schools at block level as benchmark of excellence	37.37
28.	Mission Director State Horticulture Mission, Bhopal	National Horticulture Mission	35.45
29.	Jila Micro Irrigation Committee, Ujjain	Micro Irrigation	34.75
30.	District Rural Development Agency (All districts)	District Rural Development Agency Administration	33.42
31.	Other Centrally Sponsored/ Central Sector schemes		307.26
	Total		8,153.52

(Source: CPSM Cell of AG(A&E), Madhya Pradesh and State Finance Accounts for the year 2009-10)

Government of India transferred grants-in-aid of ₹8,153.52 crore during 2009-10 directly to the implementing agencies for implementation of various Plan schemes. During the year 2009-10, larger GOI transfers were of ₹2,863 crore under National Rural Employment Guarantee Scheme, ₹1,350 crore under Pradhan Mantri Gram Sadak Yojana, ₹1,057 crore under Sarva Shiksha Abhiyan, ₹656 crore under District Rural Development Agency, Bhopal, ₹425 crore under National Rural Health

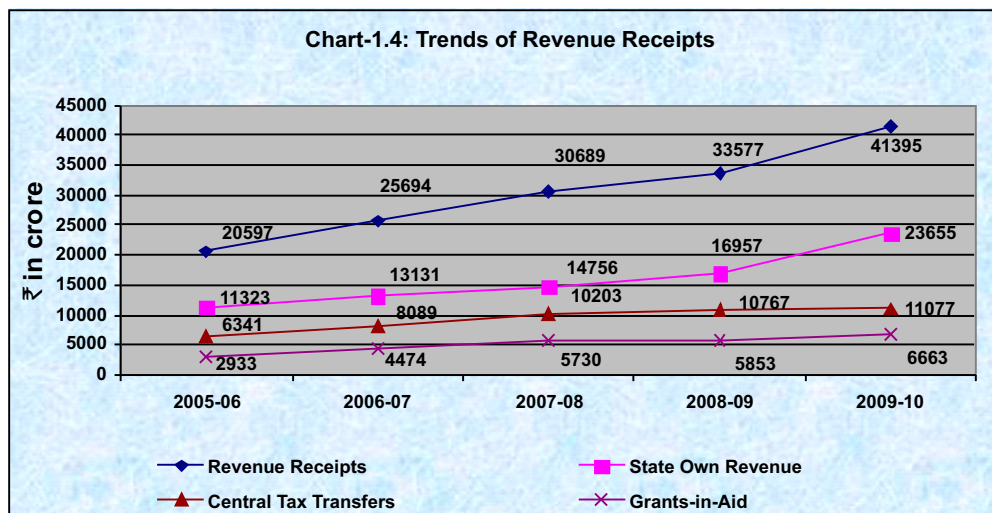
Mission, ₹252 crore under Accelerated Rural Water Supply Scheme, ₹243 crore under Rural Housing-Indira Awas Yojna, ₹137 crore under Swarnjayanti Gram Swarajgar Yojna and ₹115 crore under Integrated Watershed Management Programme. The receipt of ₹8,228⁶ crore aided the State Government in augmenting the revenue receipts to ₹49,623 crore (17 per cent) during the year 2009-10. Consolidated data on actual expenditure under these schemes/programmes was not readily available.

1.2.3 Funds transferred directly from Government of India to Non-Government Organisations (NGOs)/Voluntary Organisations (VOs) during the year 2009-10

During 2009-10, Government of India directly released ₹74.75 crore to various voluntary organisations (VOs)/non-Government organisations (NGOs). Out of these, eight NGOs/VOs received an amount of ₹25 lakh or more each totaling ₹5.64 crore during the year (Appendix-1.8). These organizations attract audit by CAG of India under provisions of Section 14 of CAGs (DPC) Act, 1971. The State Government should take remedial action for formal entrustment of audit and submission of annual accounts to the Principal Accountant General.

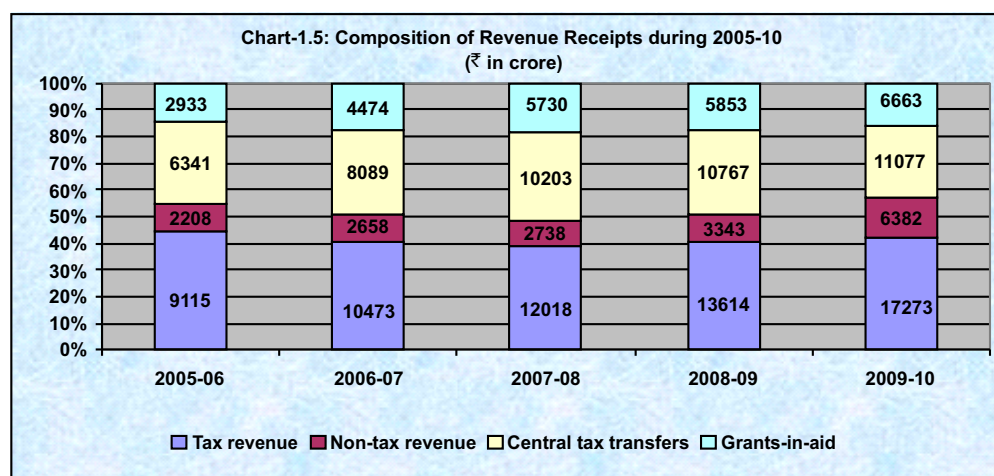
1.3 Revenue Receipts

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



(Source: State Finance Accounts of the respective years)

⁶ ₹8,153 crore pertaining to State implementing agencies and ₹75 crore pertaining to NGOs/VOs.



(Source: State Finance Accounts of the respective years)

- The revenue receipts of the State consistently increased at an average annual growth rate of 20 per cent from ₹20,597 crore in 2005-06 to ₹41,395 crore in 2009-10. While 57 per cent of the revenue receipts during 2009-10 had come from the State's own resources comprising tax revenue (42 per cent) and non-tax revenue (15 per cent), the balance 43 per cent was contributed by Central tax transfers and grants-in-aid together.
- The relative shares of the State's own tax and non-tax revenue exhibited a decreasing trend during 2005-08 and thereafter an increasing trend during 2008-10 while that of Central tax transfers and grants-in-aid showed an increasing trend during 2005-08 and thereafter a decreasing trend from 2008-10.
- Of the total increase of ₹7,818 crore in the revenue receipts of the State during 2009-10, ₹1,120 crore (14 per cent) was contributed by Central transfers and the remaining ₹6,698 crore (86 per cent) by the State's own resources. The trends of revenue receipts relative to GSDP are presented in **Table-1.4** below:

Table-1.4: Trends of revenue receipts relative to GSDP

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue receipts (RR)	20,597	25,694	30,689	33,577	41,395
Rate of growth of RR (per cent)	4.33	24.75	19.44	9.41	23.28
RR/GSDP (per cent)	17.52	19.31	20.48	19.57	21.29
Buoyancy Ratios⁷					
Revenue buoyancy with reference to GSDP	0.43	1.88	1.54	0.65	1.75
State's Own Tax Buoyancy with reference to GSDP	1.71	1.13	1.17	0.92	2.01

(Source: State Finance Accounts of the respective years and information furnished by Directorate of Economic and Statistics, Government of Madhya Pradesh)

⁷ 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.

The revenue receipts relative to GSDP increased consistently from 17.52 *per cent* in 2005-06 to 21.29 *per cent* in 2009-10 except in 2008-09 when it decreased to 19.57 *per cent* which indicated the adequacy and accessibility of the State to resources.

The revenue as well as the State's own tax buoyancies increased in 2009-10 as compared to the previous year primarily on account of the rise in the rates of growth of both revenue receipts and the State's own taxes and the less growth of GSDP during the current year. A steep rise of about 13.9 percentage points in the rate of growth of revenue receipts along with a rise of 13.6 *per cent* in the growth of the State's own taxes in 2009-10 as compared to the previous year led to a rise in revenue buoyancy with reference to the State's own taxes in the current year.

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, Central assistance for Plan schemes etc, the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts vis-à-vis budget estimates, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2005-06 to 2009-10 along with the respective all India average are presented in **Appendix-1.6**.

During 2009-10, the percentage of expenditure on the collection of Stamp duty and registration fees was comparable with the all-India average for 2008-09 but was significantly higher than the all-India average for 2008-09 in case of State excise. During 2009-10, the gross collection was more than the Budget Estimate in respect of taxes on vehicles, State excise, stamp duty and registration fees and non-ferrous mining and metallurgical industries and less than the Budget Estimate in respect of taxes on sales, trades etc. and forestry and wild life, mainly on account of receipts under State Sales Tax Act and State trading in timber. Efforts may be made to reduce administration costs on excise collection.

Tax Revenue

- Taxes on sales, trades etc. were the major contributors (45 *per cent*) of the State's own tax revenue followed by State excise (17 *per cent*), Stamps and Registration fees (10 *per cent*), taxes on goods and passengers (eight *per cent*) and taxes on vehicles (five *per cent*) during 2009-10.
- There was a growth of 13 *per cent* in taxes on sales, trades etc., 28 *per cent* in State excise, 526 *per cent* in taxes and duties on electricity and 21 *per cent* in stamps and registration fees, 19 *per cent* on taxes on vehicles and a decline of 47 *per cent* in growth of land revenue in 2009-10 over the previous year.

- The increase in receipts under taxes on sales, trades etc. was due to increase in receipts under the State Sales Tax Act- Turnover Tax. The increase in State excise receipts was mainly under country spirits (₹1,459 crore), which was partly offset by decrease in receipts under foreign liquors and spirits (₹467 crore) and the residual head 'Other Receipts' (₹266 crore). The increase of ₹1,803 crore under taxes and duties on electricity was mainly under the head 'Tax on consumption and sale of electricity' (₹1,421 crore). The increase under Stamps and Registration fees was due to increase in receipt of stamps-under the heads 'Stamps Non-judicial' (₹431 crore), which was partly offset by less receipts under the head Stamps judicial (₹327 crore). The decrease under land revenue was mainly due to less receipt under the head 'Land Revenue/Tax' (₹169 crore).
- **Table-1.5** below shows the trends of the composition of tax revenue of the State during 2005-10:

Table-1.5: Tax Revenue

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Taxes on Sales, Trades etc.	4,508	5,261	6,045	6,843	7,724
State Excise	1,370	1,547	1,854	2,302	2,952
Stamps and Registration fees	1,009	1,251	1,532	1,479	1,783
Taxes on Vehicles	556	634	703	773	919
Land Revenue	77	132	129	339	180
Taxes on goods and passengers	579	745	916	1,333	1,333
Other Taxes	1,016	903	839	545	2,382*
Total	9,115	10,473	12,018	13,614	17,273

* *Other taxes include taxes and duties on electricity (₹2,147 crore), other taxes on income and expenditure (₹204 crore), other taxes and duties on commodities and services (₹19 crore) and hotel receipt tax (₹12 crore).*

(Source: State Finance Accounts of the respective years)

Non-Tax Revenue

- Non-tax revenue increased by ₹3,039 crore from ₹3,343 crore in 2008-09 to ₹6,382 crore in 2009-10, mainly due to increase in receipts under Power (₹1,082.06 crore), Education, Sports, Art and Culture (₹426.03 crore), Non-Ferrous Mining and Metallurgical Industries (₹229.39 crore), Forestry and Wildlife (₹116.40 crore) and Interest receipts (₹1,120.75 crore).
- Non-tax revenue of ₹6,382 crore during 2009-10 included debt relief of ₹363.06 crore and thus, the actual cash based non-tax revenue was ₹6,019 crore.
- Major contributors of the non-tax revenue sources during 2009-10 were Non-Ferrous Mining and Metallurgical Industries (25 per cent), Power (17 per

cent), Forestry and Wildlife (13 per cent), Education, Sports, Art and Culture (12 per cent) and interest receipts, dividend and profits (21 per cent) and Miscellaneous General Services which included booking of debt waivers of ₹363.06 crore received for the current year (Six per cent).

- It has been observed that during 2000-09, the Compound Annual Growth Rate (CAGR) in case of Madhya Pradesh was much less than that of other General Category States (**Appendix-1.1**). This means that the State has the scope to increase its non-tax revenue receipts.

The actual receipts under the State's tax revenue and non-tax revenue vis-à-vis assessments made by TFC and the State government during 2009-10 are given in **Table 1.6** below:

Table-1.6: Non-Tax Revenue

(₹ in crore)

	Assessments made by TFC	Projections by State Government in MTFPS	Actuals
Tax Revenue	15,474	16,075	17,273
Non-Tax Revenue	3,316	3,937	6,382

(Source : State Finance Accounts of the respective year and Statement laid before the legislature under F.R.B.M. Act during 2009-10 and T.F.C. recommendation 2005-10)

Actual realization under tax revenue and non-tax revenue was higher than the assessment made by TFC (11.63 and 92.46 per cent) and the MTFPS projection (7.45 and 62.10 per cent). Higher collection of non-tax revenue was partly due to a contra-entry of the debt waiver of ₹363.06 crore received under the Debt Consolidation and Relief Facility as per the recommendations of TFC as receipts under the head 'Miscellaneous General Services'.

Recovery of cost of Operations and Maintenance expenses

The current levels of cost recovery of operations and maintenance (O&M) expenses (ratio of non-tax revenue receipts to O&M expenses) were 88.90 for education, sports, art and culture; 4.10 for Health and Family Welfare; 0.28 for Water Supply, Sanitation, Housing and Urban Development; 108.61 for Agriculture and Allied Activities; 0.02 for Transport; 1.66 for Irrigation and Flood Control and 93.93 for Power. This indicated that O&M expenses on Water Supply, Sanitation, Housing and Urban Development and Transport sectors were more than the non-tax revenue in these sectors. The cost of O&M charges in respect of major components incurred in non-tax revenue is given in **Appendix-1.7**. The State Government should increase the non-tax revenue receipts and curtail the O&M expenses in respect of Water Supply, Sanitation, Housing and Urban Development and Transport sectors.

1.3.2 Loss of Revenue due to evasion of Taxes, Write off/Waivers and Refunds

About 8,441 cases (Sales tax: 467 (as of 31 March 2009), State excise: 34 and Stamp duty and registration fees: 7,940) of evasion of taxes were pending as on 31 March 2010, while 2,074 refund cases involving ₹19.02 crore were outstanding at the end of

the year 2009-10 as reported by the Sales Tax, State Excise and Stamp Duty and Registration Fee Departments. Details of outstanding refund cases are given in **Table-1.7** below:

Table-1.7: Loss of Revenue due to Evasion of Taxes, Write off/Waivers and Refunds

Head	No. of cases	Amount (₹ in crore)
State Excise	11	0.17
Sales Tax	766	16.46
Stamp duty and Registration fees	1297	2.39
Total	2074	19.02

(Source : Information furnished by AG (W&RA) Madhya Pradesh)

There was an increase in the number of pending cases in respect of evasion of taxes and number of refund cases at the end of the year in comparison to the previous year. Had these pending cases been settled, there would have been an increase in State's own revenue.

Test check of the records of 449 units of Commercial tax, State excise, Motor vehicles, Forest and other departmental offices conducted during the year 2009-10 revealed underassessment/short levy/loss of revenue aggregating ₹3,366.12 crore in 28,674 cases. During the course of the year, departments accepted underassessment and other deficiencies of ₹1,738.52 crore involved in 18071 cases which were pointed out in audit during 2009-10. The departments collected ₹4.64 crore in 1940 cases during 2009-10.

1.3.3 Revenue Arrears

Department-wise status of arrears of revenue including arrears pending on account of litigation in courts during 2009-10 is given in **Table-1.8**.

Table-1.8: Department-wise status of arrears of revenue during 2009-10

(₹ in crore)

Sl. No.	Department	Arrears of revenue	Arrears of revenue for more than five years	Arrears of revenue pending in courts
1.	Transport (Tax on vehicles)	53.63	Not maintained by the department	Not furnished by the department
2.	State Excise	60.28	55.27	5.22
3.	Electricity	25.54	14.34	4.18
4.	Sales Tax	586.95	441.30	Not received
5.	Mining	12.17	12.17	1,720.92
6.	Co-operation	87.65	66.37	Not furnished by the department
7.	Stamp duty and Registration	71.24	26.48	28.62
	Total	897.46	615.93	

(Source : Information furnished by AG (W&RA) Madhya Pradesh)

The arrears of revenue as on 31 March 2010 (given in Table No. 1.8) amounted to ₹897.46 crore, of which ₹615.93 crore (excluding the amount related to Transport Department) was outstanding for more than five years. In addition ₹1,720.92 crore was pending in respect of the Mining Department on account of litigations in courts. The position of arrears of revenue in respect of other departments at the end of 2009-10 had not been furnished (September 2010) by the Government. Also, the stages at which arrears were pending for collection were not furnished by the departments (September 2010).

1.3.4 Non-utilisation of funds sanctioned under Twelfth Finance Commission (Forest Department)

Financial Rules prohibit drawal of money from the treasury unless required for immediate disbursement. It is obligatory for the State Government not only to utilize the funds on the programmes for which the funds are provided but also within the specified period and refund the unspent balance, if any, to the Government of India.

Scrutiny of records in the office of the Additional Principal Chief Conservator of Forests (Development), M.P. Bhopal revealed (July 2010) that an amount of ₹25.86 crore (including the lapsed amount of ₹2.86 crore of previous years re-validated/re-allotted for 2009-10) was released to the Forest Department as Special Central Assistance for various works recommended by the TFC for the year 2009-10. Against this, the department booked an expenditure of ₹24.24 crore, out of which ₹1.85 crore was transferred to 8443-Civil Deposits-800-Other Deposits on 31 March 2010 and ₹1.62 crore was not incurred. Thus, ₹3.47 crore was not utilized by the State Government during 2009-10.

The amount released and expenditure booked by the Forest Department for various works recommended by the TFC for the years 2005-06 to 2009-10 is presented in the **Table-1.9**.

Table-1.9: Amount released and expenditure booked by the forest department
(₹ in crore)

Year	Amount released	Expenditure booked	Amount transferred to K-Deposit out of expenditure booked
2005-06	23.00	22.21	4.00
2006-07	23.74	21.95	--
2007-08	23.00	22.81	3.53
2008-09	23.00	22.49	3.29
2009-10	25.86	24.24	1.85
Total	118.60	113.70	12.67

(Source : Information furnished by AG (W&RA) Madhya Pradesh)

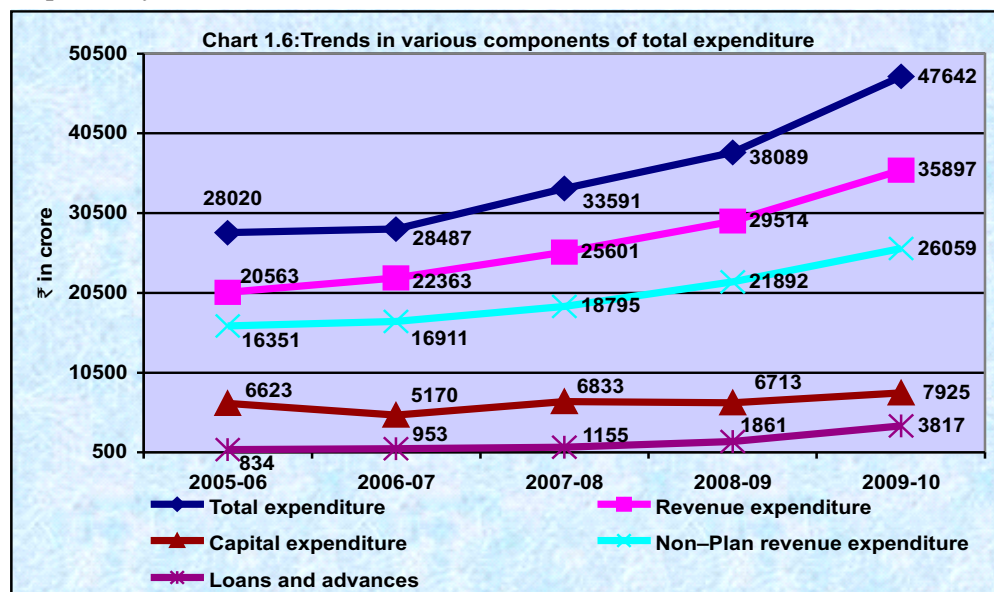
The above table indicates that during the period 2005-10, out of the released amount of ₹118.60 crore, ₹17.57 crore (₹4.90 crore saving + ₹12.67 crore transferred to Civil Deposits) remained unutilized.

1.4 Application of resources

Analysis of the allocation of expenditure at the State Government's 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. The trends in fiscal indicators (Time series data) are given in **Appendix-1.4**.

1.4.1 Growth and Composition of Expenditure

The trends observed in total expenditure over a period of five years (2005-10) are shown in **Chart-1.6** and its composition, both in terms of 'economic classification' and 'expenditure by activities', is depicted respectively in **Charts-1.7 and 1.8** respectively.



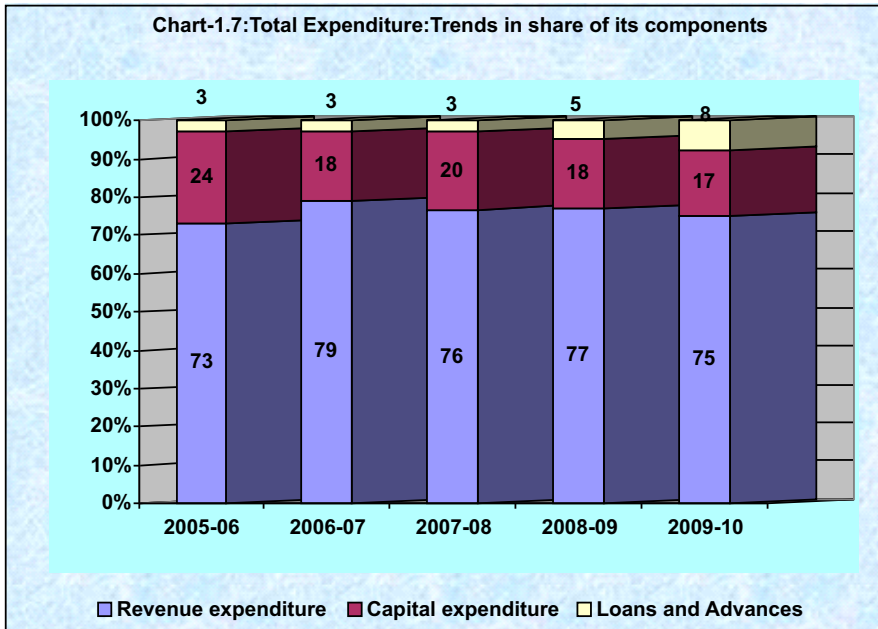
(Source : State Finance Accounts of the respective years)

The total expenditure of the State increased from ₹28,020 crore to ₹47,642 crore at an annual average growth rate of 14.01 per cent per annum during 2005-10. The capital and revenue expenditure components increased by ₹1,302 crore (20 per cent) and ₹15,334 crore (75 per cent) respectively during the period 2005-10. These trends indicate that the increase in capital and revenue expenditure was in the ratio of 1:12 during the five year period.

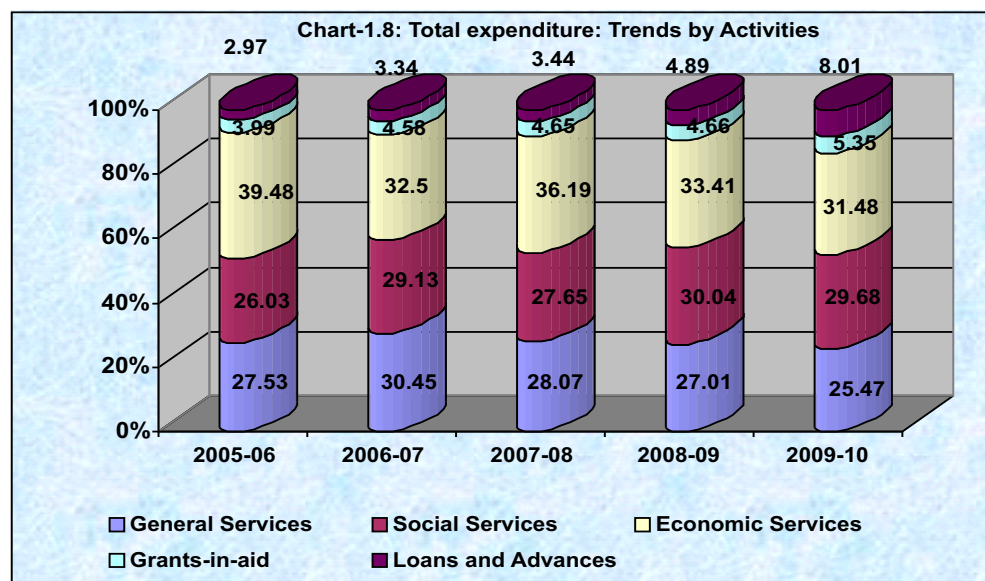
The ratio of revenue expenditure to total expenditure increased from 73 per cent in 2005-06 to 75 per cent in 2009-10 and continued to share the dominant portion of the total expenditure of the State Government. The Capital expenditure relative to total expenditure correspondingly decreased from 24 per cent in 2005-06 to 17 per cent in 2009-10 with inter-year fluctuations. In terms of Plan and Non-Plan expenditure, the Plan expenditure increased by ₹2,947 crore and Non-Plan expenditure registered a growth of ₹6,604 crore over the last year.

The significant increase of ₹9,553 crore in total expenditure (25 per cent) during 2009-10 was mainly due to increase of ₹6,383 crore in revenue expenditure, ₹1,958 crore in disbursement of loans and advances including Inter-State Settlement and ₹1,212 crore in capital expenditure. The increase in capital expenditure was mainly due to increase in capital outlay on Energy (₹1,069 crore), Road and Bridges (₹319 crore), Medium Irrigation (₹79 crore) and Minor Irrigation (₹61 crore), which was partly offset by decrease under Water Supply, Sanitation, Housing and Urban Development (₹81 crore) and Major Irrigation (₹136 crore).

The decreasing ratio of Total Expenditure (TE)/Revenue Receipts (RR) from 136 per cent in 2005-06 to 115 per cent in 2009-10 indicates increasing reliance on revenue receipts to finance the TE and decreasing dependence on borrowed funds. This is also reflected by the decreasing trend of the fiscal liabilities to revenue receipts ratio during the period 2005-10. The buoyancy ratio of TE with reference to GSDP increased from 0.92 in 2008-09 to 1.88 in 2009-10 due to higher growth of TE and less growth of GSDP while it with reference to RR, decreased from 1.42 in 2008-09 to 1.08 in 2009-10 due to higher growth of revenue receipts.



(Source: State Finance Accounts of the respective years)



(Source: State Finance Accounts of the respective years)

The share of revenue expenditure in total expenditure remained in the range of 73 to 79 per cent during 2005-10. The share of loans and advances in total expenditure showed an increasing trend during 2005-10 while that of capital expenditure showed a decreasing trend with inter-year variations during 2005-10. It was observed that a major portion of the total capital expenditure was Plan capital expenditure during the period. During 2009-10, 99.23 per cent of the total capital expenditure was Plan capital expenditure (₹7,864 crore) which increased by ₹1,361 crore from the level of ₹6,503 crore in 2008-09.

The share of General Services (including Interest Payments), considered as non-developmental expenditure declined marginally from 27.53 per cent to 25.47 per cent over the period 2005-10 while the share of Social Services increased by 3.65 per cent over the period 2005-10. The share of Economic Services indicated a significant decrease from 39.48 per cent in 2005-06 to 31.48 per cent in 2009-10 with wide inter-year fluctuations. The development expenditure comprising Social and Economic Services together decreased from 63.45 per cent in 2008-09 to 61.16 per cent in 2009-10. The share of grants-in-aid and loans and advances showed increasing trends during the period 2005-10.

Trends in the growth of revenue expenditure

The overall revenue expenditure of the State increased from ₹20,563 crore in 2005-06 to ₹35,897 crore in 2009-10, showing an increase of 75 per cent over the period. Out of the total increase of revenue expenditure of ₹6,383 crore (21.63 per cent) during 2009-10, NPRE amounted to ₹4,167 crore (65 per cent) while increase under plan revenue heads was ₹2,216 crore (35 per cent). The increase in NPRE during the current year was mainly due to increase in expenditure on General Education (₹964 crore), Pension and other retirement benefits (₹644 crore), Compensation and

assignment to local bodies and Panchayati Raj Institutions (₹652 crore), State excise (₹303 crore), Police (₹335 crore), Interest Payments (₹262 crore), Power (₹218 crore), Medical and Public Health (₹214 crore) and Other Rural Development Programmes (₹30 crore), partly offset by decrease under Social Security and Welfare (₹126 crore). The actual NPPE vis-à-vis the assessment made by TFC and the State government are given in **Table-1.10**.

Table-1.10: Trends in the growth of non-plan revenue expenditure
(₹ in crore)

Year	Assessments made by TFC	Assessments made by State Government in MTFPS	Actual NPPE
	(1)	(2)	(3)
2007-08	16,478	19,113	18,795
2008-09	17,819	23,245	21,892
2009-10	19,257	26,976	26,059

(Source : State Finance Accounts of the respective year and T.F.C. Recommendation and Statement laid under F.R.B.M. Act)

The actual NPPE at ₹26,059 crore in 2009-10 was more than the normatively assessed level of TFC (35.3 per cent) but marginally less than the projection made by the State Government in its MTFPS (3.4 per cent). Relative to the assessment made by TFC, the increase was mainly under interest payments (₹107 crore), General Services excluded interest payments (₹2,360 crore), Social Services (₹1,626 crore) and Economic Services (₹2,817 crore).

The Plan revenue expenditure (PRE), which consistently increased during the period 2005-10, increased by 29.07 per cent during the current year. The increase in PRE in 2009-10 was mainly under General Education (₹355 crore), Medical and Public Health (₹146 crore), Social, Security and Welfare (₹673 crore), Crop Husbandry (₹132 crore), Other Rural Development Programme (₹413 crore) and Welfare of SC, ST and OBC (₹176 crore), which was partly offset by a decrease in expenditure under Rural Employment (₹170 crore).

1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table-1.11** and **Chart-1.9** present the trends of expenditure on these components during 2005-10.

Table-1.11: Components of committed expenditure

(₹ in crore)

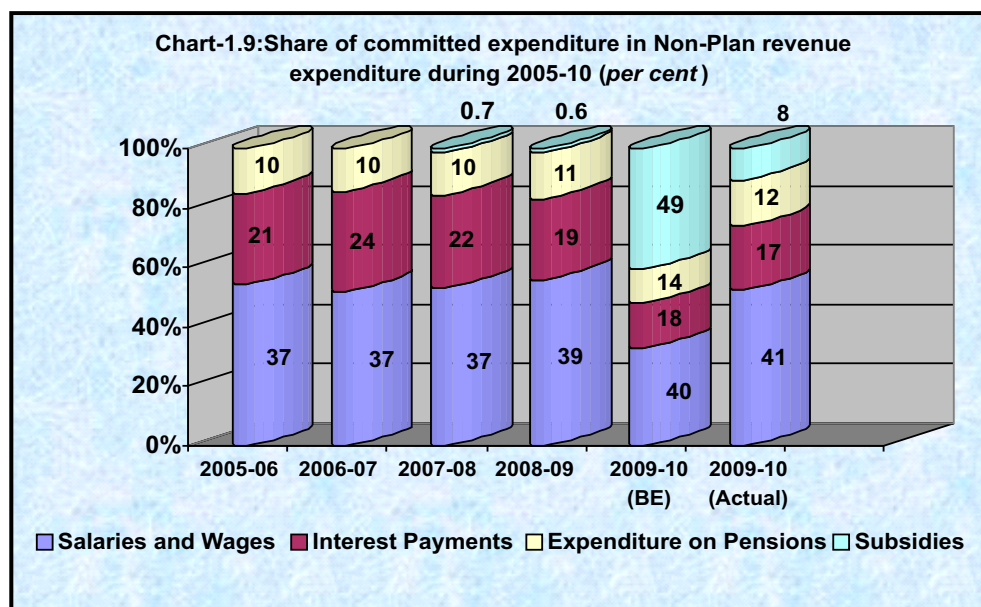
Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Salaries and Wages, of which	6,024 (29.25)	6,337 (24.66)	6,984 (22.76)	8,547 (25.45)	10,848 (27.15)	10,678 (25.80)
Non-Plan Head	5,258	5,639	6,221	7,660	10,848	9,406
Plan Head**	766	698	763	887	--	1,272
Interest Payments	3,422 (16.61)	4,029 (15.68)	4,191 (13.66)	4,192 (12.48)	4,965 (12.42)	4,454 (10.76)
Expenditure on Pensions	1,557 (8)	1,752 (7)	1,964 (6)	2,433 (7)	3,641 (9.11)	3,077 (7)
Subsidies	NA	NA	141 [@] (0.46)	132 [@] (0.39)	13,184 (32.99)	2,033 [@] (4.91)
Total	11,003 (53)	12,118 (47)	13,280 (43)	15,304 (46)	32,638 (82)	20,242 (49)

(Source : State Finance Accounts of the respective years and information furnished by A.G. (A&E) Madhya Pradesh)

Figures in parentheses indicate percentage of Revenue Receipts

** Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

@ To the extent information is available in the Finance Accounts



(Source : State Finance Accounts of the respective years and information furnished by A.G. (A&E) Madhya Pradesh)

The overall committed expenditure increased by 84 per cent during 2005-10. Committed expenditure during 2009-10 constituted 78 per cent of the NPRE. As a percentage of revenue receipts, it showed a decreasing trend during 2005-08 and increasing trend during 2008-09 and 2009-10. During 2009-10, it constituted 49 per cent of the revenue receipts and was more than the previous year but less than the Budget projections. The component-wise analysis is as follows:

Salaries and wages

The expenditure on salaries and wages increased by 77 *per cent* from ₹6,024 crore in 2005-06 to ₹10,678 crore in 2009-10. Expenditure on salaries and wages as a percentage of revenue receipts showed a decreasing trend during 2005-08 and an increasing trend in 2008-09 and 2009-10. An increase of 23 *per cent* in expenditure on salaries and wages under the Non-Plan head during 2009-10 over the previous year was mainly due to payment of arrears as per recommendation of the Sixth Pay Commission to State Government employees. Actual expenditure on salaries and wages of ₹10,678 crore in 2009-10 was within the projections in MTFPS (₹10,848 crore). The salary bill relative to revenue expenditure, net of interest payments and pensions at 38 *per cent* was more than the norm of 35 *per cent* recommended by TFC.

Pension Payments

Pension payments increased by 26 *per cent* from ₹2,433 crore during 2008-09 to ₹3,077 crore during 2009-10 mainly on account of increase in the payment of dearness relief given to pensioners. The increase was noticed mainly under superannuation and retirement allowances (₹413 crore), family pension (₹152 crore), leave encashment (₹21 crore) and gratuity (₹63 crore). Actual pension payment at ₹3,077 crore in 2009-10 was less than ₹3,641 crore (15.49 *per cent*) as projected in MTFPS but more than ₹2,342 crore (31.38 *per cent*) as projected by TFC.

Interest payments

- Interest payments of ₹4,454 crore during 2009-10 accounted for 10.76 *per cent* of the revenue receipts and constituted 12.41 *per cent* of revenue expenditure during 2009-10. Interest payments during the year were on special securities issued to National Small Saving Fund (NSSF) of the Central Government by the State Government (₹1,382 crore), market loans (₹1,488 crore), loans borrowed from the Central Government (₹703 crore), State Provident funds (₹549 crore), other internal debt (₹326 crore) and management of debt (₹ six crore).
- The increase of ₹262 crore in interest payments during 2009-10 over the previous year was the result of increase mainly under market loans (₹479 crore) and loans from the Central Government (₹10 crore), partly offset by a decrease under other internal debt (₹229 crore), interest on special securities issued to NSSF of Central Government (₹14 crore).
- It was observed that interest payments as a percentage of revenue receipts during the year 2009-10 was 10.76 *per cent* which was within the norm of 15 *per cent* to be achieved by 2009-10 as per the recommendation of TFC. Interest payments of ₹4,454 crore paid during the year were less than the BE of ₹4,965 crore but more than the projection of (₹4,347 crore) TFC for 2009-10.

Subsidies

Subsidy payment of ₹2,033 crore (Non-Plan: ₹1,793 crore and Plan: ₹240 crore) accounted for 4.91 *per cent* of the revenue receipts and constituted 5.66 *per cent* of the revenue expenditure during 2009-10. The details of subsidies in Non-Plan and Plan revenue expenditure are presented below in **Table-1.12**.

Table-1.12: Details of subsidies payment during 2009-10

(₹ in crore)

S. No.	Department	Description and Head of Account	2009-10			
			Non-Plan	Plan	Centrally Sponsored Schemes (including Central Sector)	Total
1.	Food	2408-Food Storage and Warehousing	58.85	--	--	58.85
2.	Energy	2801-Power	1,734.52	72.00	--	1,806.52
3.	Farmers Welfare and Agriculture Development	2401-Crop Husbandry	--	58.99	32.20	91.19
4.	Tribal Welfare	2401- Crop Husbandry	--	27.43	9.47	36.90
5.	Scheduled Castes Welfare	2401- Crop Husbandry	--	20.22	5.41	25.63
6.	Panchayat and Rural Development	2401- Crop Husbandry	--	--	13.80	13.80
	Total		1,793.37	178.64	60.88	2,032.89⁸

(Source: State Finance Accounts 2009-10)

Out of the total subsidies of ₹2,033 crore, ₹1,807 crore (89 *per cent*) were mainly for Power and Energy Department. The increase in the amount of subsidy during 2009-10 over previous year was mainly due to opening of distinct object head (Raj Sahayata) in the Budget 2009-10, which was not available in the Budget Estimates of previous year. The expenditure incurred for food subsidy was within the limit prescribed in the TFC.

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-1.13**.

8 To the extent available in Finance Accounts

Table-1.13: Financial Assistance to Local Bodies etc.

(₹ in crore)

Financial Assistance to institutions	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities)	133.37	235.09	166.76	161.99	167.17	118.85
Municipal Corporations and Municipalities	1,027.34	1,499.61	1,872.65	1,880.40	2,878.17	2,654.32 ⁹
Zila Parishad and Other Panchayati Raj Institutions	685.98	736.45	885.87	756.21	928.43	926.64 ¹⁰
Development Agencies	2.00	5.91	6.81	13.00	8.14	6.17
Hospital and other charitable institutions	7.14	6.49	7.29	7.29	25.18	25.18
Other Institutions	311.43	470.46	603.38	965.00	821.20	775.27 ¹¹
Total	2,167.26	2,954.01	3,542.76	3,783.89	4,828.29	4,506.43
Assistance as per percentage of Revenue Expenditure	10.54	13.20	13.84	12.82	12.62	12.55

(Source: Information collected from various departments)

Financial assistance to local bodies and institutions increased by ₹722.54 crore from ₹3,783.89 crore in 2008-09 to ₹4,506.43 crore in 2009-10. The increase was mainly under Municipal Corporations (₹773.92 crore), Zila Parishads and Other Panchayati Raj Institutions (₹170.43 crore), Hospital and other charitable institutions (₹17.89 crore), which was partly offset by decrease of ₹43.14 crore under educational institutions, ₹189.73 crore under other institutions and ₹6.83 crore under Development Agencies.

The increase of ₹773.92 crore under Municipal Corporations, ₹170.43 under Zila Parishads and other Panchayati Raj institutions and ₹17.89 crore under hospitals and other charitable institutions was mainly in respect of the increase in basic facilities i.e. drinking water, road repairs and integrated development of urban areas and slum colonies and implementation of the recommendations of the Sixth Pay Commission by giving of pay and allowances at enhanced rates and providing arrears of pay fixation.

As against the BE of ₹4,828.29 crore, a sum of ₹4,506.43 crore was provided as assistance to various institutions during the year. Decrease in expenditure compared to the BE in 2009-10 was observed mainly in respect of Municipal Corporations and Municipalities, Educational Institutions (Aided Schools, Colleges and Universities) and other institutions due to 10 per cent economic cut imposed by the Finance Department.

⁹ Includes ₹303.22 crore in respect of central schemes under MH-2217, 4217 and 6217

¹⁰ Includes ₹509.84 crore related to Twelfth Finance Commission

¹¹ Includes mainly Food, Civil Supply and Consumer Protection (₹519.92 crore), Co-operatives and Co-operative Societies (₹79.56 crore), Farmers Welfare and Agriculture Development (₹59.15 crore), Public Health Engineering (₹26.72 crore), Town and Country Planning (₹16.40 crore), M.P. Science and Technology (₹20.65 crore), Culture (₹12.59 crore), Schedule Caste Development (₹10.52 crore), Sports Youth Welfare (₹3.92 crore), Handlooms (₹10.01 crore), Environment Planning and Co-ordination organization (₹3.14 crore) and Others (₹12.69 crore).

The assistance as percentage of revenue expenditure decreased from 12.82 per cent in 2008-09 to 12.55 per cent in 2009-10, which was less than BE of 12.62 per cent.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. 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 effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels require the States to step up their expenditure on key social services like education, health etc. The low level of spending on any sector by a particular State may be due to the low fiscal priority attached by the State Government. Low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective General Category States' Average. **Table-1.14** analyses the fiscal priority of the State with regard to development expenditure, social sector expenditure, education and health sector expenditure and capital expenditure.

Table-1.14: Fiscal Priority 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	Expenditure on Education/ AE	Expenditure on Health/ AE
General Category States' Average (Ratio) 2005-06	17.58	61.39	30.91	13.92	15.02	4.06
Madhya Pradesh's Average (Ratio) 2005-06	23.83	66.72	26.28	23.64	10.39	3.53
General Category States' Average (Ratio) 2009-10	18.18	66.11	35.76	14.85	16.18	4.29
Madhya Pradesh Average (Ratio) 2009-10	24.50	69.08	30.10	16.63	13.65	3.49
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. *Expenditure on Social Sector, Education and Health Sector includes revenue expenditure, capital expenditure and loans and advances disbursed in these sectors. Source : For GSDP, Information was collected from the State's Directorate of Economics and Statistics.						

Table-1.14 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).

Fiscal Priority

- In 2005-06 and 2009-10, the Government had given adequate fiscal priority to AE, DE and SSE as the ratios of AE/GSDP, DE/AE and CE/AE were higher for Madhya Pradesh than the General Category States' Average.
- The priority given to Social Sector Expenditure (SSE) and expenditure on the Education and Health Sectors, however, was not adequate in both the years 2005-06 and 2009-10 as their ratios to AE were lower than the General Category States' Average. Greater fiscal priority needs to be given to Social Sector, Education and Health by the Government.

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 goods¹². Apart from improving the allocation towards development expenditure¹³, 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. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table-1.15** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years.

12 *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 those 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 the 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.

13 *The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into Social Services, Economic Services and General Services. Broadly, the Social and Economic Services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure.*

Table-1.15: Development expenditure

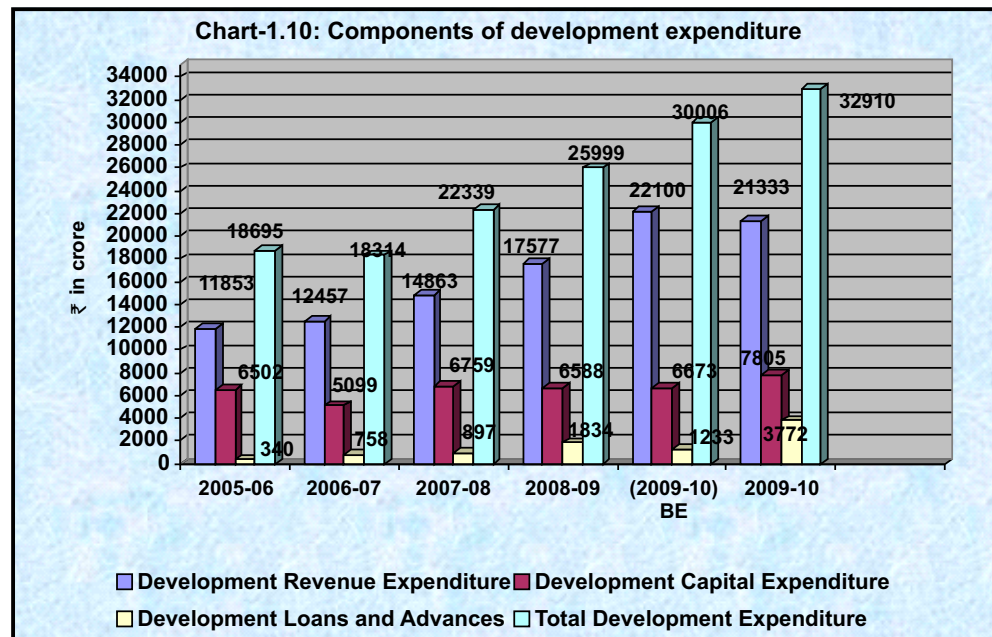
(₹ in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Development Expenditure (a to c)	18,695 (66)	18,314 (64)	22,339 (66)	25,999 (68)	30,006 (65)	32,910 (69)
a. Development Revenue Expenditure	11,853 (42)	12,457 (44)	14,683 (44)	17,577 (46)	22,100 (48)	21,333 (45)
b. Development Capital Expenditure	6,502 (23)	5,099 (18)	6,759 (20)	6,588 (17)	6,673 (14)	7,805 (16)
c. Development Loans and Advances	340 (1)	758 (3)	897 (3)	1,834 (5)	1,233 (3)	3,772 (8)

Figures in parentheses indicate percentage to aggregate expenditure
(Source: State Finance Accounts of the respective years)

Table-1.15 presents trends in respect of development expenditure to total expenditure of the State during the period 2005-10, which ranged between 64 and 69 *per cent* during 2005-10. The share of development loans and advances showed an increasing trend while the development revenue and capital expenditure indicated decline of one *per cent* each in 2009-10 as compared to previous year. The increase in the share of development loans and advances were under Social and Economic Services. The decrease in the share of development revenue and capital expenditure during 2009-10 over the previous year was under Economic and Social Services respectively. The share of development revenue expenditure was less than both the BE and actuals of previous year and the share of capital expenditure during 2009-10 was higher than the BE but less than the actuals of previous year.

Chart-1.10 presents component-wise development expenditure during 2005-10.



(Source: State Finance Accounts of the respective years)

Table-1.16 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected Social and Economic Services.

Table-1.16: Efficiency of Expenditure Use in Selected Social and Economic Services
(per cent)

Social/Economic Infrastructure	2008-09			2009-10		
	Share of CE to TE	In concerned sector of RE, the share of		Share of CE to TE	In concerned sector of RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
Education, Sports, Art and Culture	4.79	61.46	0.14	3.54	59.53	0.13
Health and Family Welfare	4.96	66.13	0.40	4.73	69.63	0.34
Water Supply, Sanitation, Housing and Urban Development	32.70	21.50	9.13	29.55	25.04	9.95
Other Social Services	10.58	12.07	0.11	7.19	11.02	0.07
Total (SS)	11.09	43.88	1.13	8.21	42.87	1.00
Economic Services (ES)						
Agriculture and Allied Activities	1.65	42.25	0.26	0.94	45.67	0.27
Irrigation and Flood Control	83.34	81.78	9.23	80.85	86.70	7.65
Power & Energy	23.11	0.00	0.79	27.34	0.00	0.68
Transport	72.43	27.39	65.38	77.97	46.36	46.19
Other Economic Services	18.83	10.60	0.50	15.91	11.43	0.39
Total (ES)	36.95	24.97	6.29	35.69	27.74	3.88
Total (SS+ES)	25.34	35.89	3.31	23.72	36.93	2.13

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations and Maintenance

(Source : State Finance Accounts of the respective years and information furnished by A G (A&E) Madhya Pradesh)

Table-1.16 reveals that the share of capital expenditure on Social Services decreased from 11.09 per cent in 2008-09 to 8.21 per cent in 2009-10 and on Economic Services, it marginally declined from 36.95 per cent to 35.69 per cent in 2009-10.

- The decrease in share of capital expenditure under Social Services was mainly under Education, Sports, Art and Culture, Water Supply, Sanitation, Housing and Urban Development and other Social Services while the decline in the share of capital expenditure under Economic Services was mainly under the Agriculture and Allied Activities, Irrigation and Flood Control and other Economic Services.
- Of the revenue expenditure, the share of salaries and wages under Social and Economic Services increased marginally from 35.89 per cent in 2008-09 to 36.93 per cent in 2009-10. In the case of O&M, expenditure decreased from 3.31 per cent in 2008-09 to 2.13 per cent in 2009-10, mainly under Irrigation and Flood Control and the Transport Sector.

- Thus a significant decrease in the proportion of capital expenditure on Social Services and the marginal decline in the Economic Services to total expenditure and also the fall in revenue expenditure on O&M during the current year over the previous year indicated decline in the quality of services.
- It was observed that during 2000-09, the Compound Annual Growth Rate (CAGR) of revenue expenditure on Education and Health sector in case of Madhya Pradesh was less than that of other General Category States. This means that the expenditure in these sectors needed to be increased (**Appendix-1.1**).
- Recognising the need to improve the quality of education and health services, TFC recommended that the Non-Plan salary expenditure under Education and Health and Family Welfare should increase only by five to six *per cent* while non-salary expenditure under Non-Plan heads should increase by 30 *per cent* per annum during the award period. The Non-Plan salary component under the Education sector increased by 23 *per cent* over 2008-09 while the Non-Plan non-salary components increased by 36 *per cent*. Under the Health and Family Welfare Sector, the Non-Plan salary component increased by 27 *per cent* and the Non-Plan non-salary component increased by nine *per cent* over the previous year. The expenditure pattern in the Education Sector and Non-plan salary expenditure in the Health Sector needed correction in the ensuing years as per the norms of TFC.

1.6 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the Government 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 Government should initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on the budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a 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 Investment and Returns

The Government invested ₹11,686.28 crore in Statutory Corporations, Government Companies, Other Joint Stock Companies and Co-operatives Banks and Societies etc. as of 31 March 2010 (**Table-1.17**). The average return on these investments was 0.61 *per cent* in the last three years while the Government paid an average rate of interest of 7.30 *per cent* on the borrowings during 2007-2010.

Table-1.17: Return on investments

(₹ in crore)

Investment/return/cost of borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	6,965.99	8,161.71	8,844.99	9,643.35	11,686.28
Return (₹ in crore)	5.72	14.40	59.23	69.05	49.75
Return (<i>per cent</i>)	0.08	0.18	0.67	0.72	0.43
Average rate of interest on Government borrowings (<i>per cent</i>)	7.33	7.86	7.72	7.24	6.94
Difference between interest rate and return (<i>per cent</i>)	7.25	7.68	7.05	6.52	6.51

(Note: BE Figure for 2009-10 not available)

(Source : State Finance Accounts of the respective years)

- Out of the total investment of ₹11,686.28 crore at the end of March 2010, ₹1,082.58 crore pertained to the composite State of Madhya Pradesh but was retained in Madhya Pradesh pending allocation between Madhya Pradesh and Chhattisgarh Statutory Corporations (₹411 crore), Government Companies (₹187.04 crore), Co-operative Banks and Societies (₹483.00 crore) and Joint-Stock Companies (₹1.54 crore)}. The return on these investments was 0.43 *per cent* in 2009-10 while the Government paid interest at the average rate of 6.94 *per cent* on its borrowings during 2009-10.
- The increase in investments in 2009-10 over the previous fiscal year was mainly on account of investments under Madhya Pradesh Electricity Board (MPEB), Jabalpur (₹1,735 crore), provision for settlement of guaranteed loans (₹34 crore), transmission system works of successor companies of MPEB (₹146 crore) and Malwa Thermal Power Projects (₹49 crore).
- Major investments were made under the successor companies of the Madhya Pradesh Electricity Board (₹3,810 crore), Madhya Pradesh Electricity Board, Jabalpur (₹4,221 crore), Satpura/ Malwa/ Amarkantak/ Veersingpur Thermal Power Projects (₹735 crore), Narmada Hydroelectric Development Corporation (₹822 crore) and the Madhya Pradesh Financial Corporation, Indore (₹324 crore), which constituted 85 *per cent* of the total investments made up to March 2010.
- Of these, two Statutory Corporations and 14 Government Companies with an aggregate investment of ₹6,843 crore for the latest year for which accounts were finalized up to 2009-10 were running in losses which accumulated to ₹7,142 crore as per the accounts furnished by these Companies up to 2009-10 (Appendix-1.9).
- Major loss-making units included Madhya Pradesh State Industrial Development Corporation Limited, Bhopal (₹621 crore), Madhya Pradesh Paschim Kshetra Vidyut Vitran Company Limited, Indore (₹1,034 crore), Madhya Pradesh Madhya Kshetra Vidyut Vitran Company Limited, Bhopal (₹1,323 crore), Madhya Pradesh Poorv Kshetra Vidyut Vitran Company

Limited, Jabalpur (₹2,234 crore), Optel Telecommunication Limited, Bhopal (₹107 crore), Madhya Pradesh Power Generating Company Limited (₹363 crore), Madhya Pradesh State Road Transport Corporation (₹1,025 crore), Madhya Pradesh Financial Corporation, Indore (₹241 crore) and Madhya Pradesh State Textile Corporation Ltd. Bhopal (₹85 crore).

- The Government needs not only to invest the high cost borrowings more judiciously to get better returns, but also address the losses on account of these sick units either by their restructuring and rehabilitation and/or by considering the disinvestments of such units.

1.6.2 Loans and advances by the State Government

In addition to investments in co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/ organizations. **Table-1.18** presents the outstanding loans and advances as on 31 March 2010, interest receipts vis-à-vis interest payments during the last three years.

Table-1.18: Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of loans/interest receipts/ cost of borrowings	2007-08	2008-09	2009-10	
			BE	Actual
Opening Balance	4,773	5,823		7,630
Amount advanced during the year	1,155	1,861	1,390	3,817
Amount repaid during the year	105	54	47	23
Closing Balance	5,823	7,630		11,424
<i>of which</i> Outstanding balance for which terms and conditions have been settled				
Net addition	1,050	1,807		3,794
Interest received	29	64	177	1,102
Interest receipts as percentage of outstanding Loans and Advances	0.55	0.95		11.57
Interest payments as percentage of outstanding fiscal liabilities of the State Government	7.72	7.24		6.94
Difference between interest payments and interest receipts (<i>per cent</i>)	7.17	6.29		-4.63

(Source : State Finance Accounts of the respective year and Budget Estimate 2009-10)

- The total outstanding loans and advances as on 31 March 2010, was ₹11,424 crore. The interest received against these loans advanced was ₹1,102 crore and increased from 0.55 *per cent* in 2007-08 to 11.57 *per cent* in 2009-10. Loans advanced to various State Government institutions increased at a rate higher than the speed of recovery of loans and advances resulting in an increase in outstanding loans and advances during this period.
- It was observed that 69 *per cent* (₹7,869 crore) of outstanding loans and advances (₹11,424 crore) as on 31 March 2010 pertained to MPSEB and its successor companies and another 16 *per cent* were to be recovered from units engaged in water supply, sanitation, housing and urban development (₹1,868 crore), nine *per cent* from those under Miscellaneous General Services (₹1,015 crore) and three *per cent* from those in Agriculture and allied activities (₹356 crore).

- The average interest paid on borrowings at the rate of 6.94 per cent was less than the interest received at the rate of 11.57 per cent on loans and advances given by the Government during 2009-10.
- The significant increase in disbursement of loans and advances was mainly in respect of loans to power transmission and distribution companies.
- The recovery of loans and advances of ₹23 crore during the year was less than the BE of ₹47 crore mainly due to non-recovery from MPSEB and its successor companies. The decrease of ₹31 crore in actual recoveries over the previous year was mainly under Loans to Industries and Minerals (₹17 crore) and Water Supply, Sanitation and Urban Development (₹10 crore).
- Interest received (₹1,102 crore) in 2009-10 was more than the BE (₹177 crore) and actuals (₹64 crore for 2008-09) mainly due to more receipt of interest from power projects.

1.6.3 Cash Balances and Investment of Cash balances

Table-1.19 depicts the cash balances and investments made by the State Government out of the cash balances during the year:

Table-1.19: Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 1 April 2009	As on 31 March 2010	Increase(+)/ Decrease(-)
Cash Balances	2,422.10	3,912.93	(+)1,490.83
Investments from Cash Balances (a to d)	2,929.47	5,559.72	(+)2,630.25
a. GOI Treasury Bills	2,926.15	5,556.19	(+)2,630.04
b. GOI Securities	3.32	3.53	(+)0.21
c. Other Securities	--	--	--
d. Other Investments	--	--	--
Funds-wise Break-up of Investments from earmarked balances (a to d)	316.75	379.95	(+)63.20
a. Famine Relief Fund	0.35	1.13	(+)0.78
b. Revenue Reserve Fund	10.56	9.41	-1.15
c. State Agriculture Credit Relief and Guarantee Fund	0.18	0.18	--
d. Guarantee Redemption Fund	305.66	369.23	(+)63.57
Interest Realized	95.95	172.84	(+)76.89

(Source : State Finance Accounts of the respective years)

- The cash balances of the Government at the end of the year increased by ₹1,491 crore (62 per cent) from the level of ₹2,422 crore in the previous year. Having large idle cash balances is not advisable as they are borrowed at a high cost but invested in low interest-bearing treasury bills and government securities.
- Under an agreement with the Reserve Bank of India (RBI), the Government of Madhya Pradesh has to maintain with the RBI a minimum cash balance of ₹1.96 crore. If this balance falls below the agreed minimum on any day, the deficiency is made good by taking Ordinary and Special Ways and Means

Advances/Overdrafts from time to time. As on 31 March 2010, nothing was outstanding on account of transactions relating to Ways and Means advances. Investment from earmarked balances increased by ₹63.20 crore during 2009-10 mainly under the Guarantee Redemption Fund, partly offset by a decrease under the Revenue Reserve Fund.

1.7 Assets and Liabilities

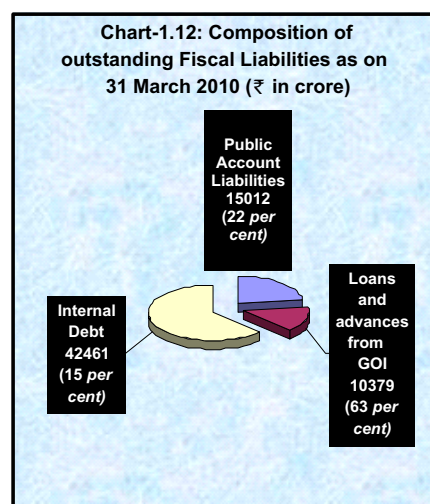
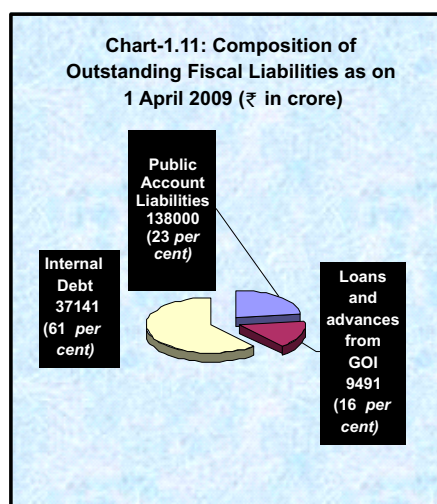
1.7.1 Growth and composition of Assets and Liabilities

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-1.5 Part-B** gives an abstract of such liabilities and assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the Government and cash balances.

The FRBM Act, 2005, describes 'Total Liabilities' as the liabilities under the Consolidated Fund and the Public Account of the State and includes risk weighted guarantee obligations of the State Government where the principal and/or interest are to be serviced out of the State Budget.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix-1.4**. The composition of fiscal liabilities during the current year vis-à-vis the previous year are presented in **Charts-1.11 and 1.12**.



(Source : State Finance Accounts of the respective year)

- The overall fiscal liabilities of the State increased from ₹49,173 crore in 2005-06 to ₹67,853 crore in 2009-10. The growth rate increased to 12.28 *per cent* during 2009-10 as against 9.26 *per cent* in 2008-09. The increase in 2009-10 over the previous year was mainly under market loans (₹5,016 crore), loans from GOI (₹888 crore) and loans from National Bank of Agriculture and Rural Development (₹281 crore) partly offset by a decrease mainly under compensation and other bonds (₹361 crore).
- Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. As of 31 March 2010, the Consolidated Fund liabilities (₹52,841 crore) comprised market loans (₹21,620 crore), special securities issued to NSSF (₹14,666 crore); compensation and issue of other bonds (₹2,495 crore); loans from NABARD (₹2,844 crore); loans and advances from GOI (₹10,379 crore) and other loans (₹837 crore). The Public Account liabilities (₹15,012 crore) comprised small savings, provident funds etc. (₹8,451 crore), interest bearing obligations (₹241 crore) and non-interest bearing obligations like deposits and other earmarked funds (₹6,320 crore).
- These liabilities stood at 34.90 *per cent* of GSDP which was 1.6 times the revenue receipts and 2.87 times the State's own resources as at the end of 2009-10. The buoyancy of these liabilities with respect to GSDP increased from 0.64 in 2008-09 to 0.92 during the year mainly due to sharp increases in their growth rate from 9.26 *per cent* in 2008-09 to 12.28 *per cent* in 2009-10.
- A Sinking Fund for amortization of all loans, including loans from banks, liabilities on account of NSS etc. had not been set up by the Government. The Government was of the view that except where it may be obligatory to do so, provision for amortization of loans received from GOI should be made out of revenues only where sufficient revenue resources were available to finance such amortization arrangements. The State Government did not consider it necessary to make arrangements for amortization of any such loans in spite of having revenue surpluses.

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 guarantee are extended.

As shown in Statement 9 of the Finance Accounts, the maximum amounts for which guarantees were given by the State and the outstanding guarantees for the last three years are given in **Table-1.20**.

Table-1.20: Guarantees given by the Government of Madhya Pradesh

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10	
			Budget estimate	Actual
Maximum amount guaranteed	12,086.00	11,991.33	9,250.97	11,823.20
Outstanding amount of guarantees*	855.73	1,930.09	NA	1,629.60
Percentage of maximum amount guaranteed to total revenue receipts	39.38	35.71	23.15	28.56
Actual figures against criteria as per FRBM Act as under: (Limit the annual incremental guarantees so as to ensure that the guarantees do not exceed 80 per cent of the total revenue receipts in the year preceding the current year)	3.33*	6.29*	NA	4.85*

*To the extent information was available in Finance Accounts

(Source: State Finance Accounts of the respective years and Statement laid before the legislature and projection made under FRBM Act)

- The outstanding amount of guarantees is in the nature of a contingent liability, which was 3.94 per cent of the revenue receipts. Guarantees had been given by the State Government for the discharge of certain liabilities like loans raised by Statutory Corporations, Government Companies, Joint Stock Companies, Co-operative institutions, local bodies, firms etc.
- The maximum amount guaranteed by the Government decreased from ₹11,991 crore in 2008-09 to ₹11,823 crore (including ₹9,250 crore still to be allocated between Madhya Pradesh and Chhattisgarh as per the M.P. Reorganisation Act, 2000) in 2009-10, out of which ₹1,630 crore was outstanding at the end of the year.
- The major recipients of such guarantees were Statutory Corporation and Boards and Co-operative Banks and Societies. Out of the outstanding guarantees of ₹1,630 crore, ₹123 crore was outstanding on account of interest.
- The Government constituted the Guarantee Redemption Fund and at the end of year 2009-10, there was a closing balance of ₹369.23 crore in the Fund. The FRBM Act, 2005 prescribes the fiscal target of limiting annual incremental guarantees so as to ensure that the total guarantees do not exceed 80 per cent of the total revenue receipts in the year preceding the current year. The annual incremental guarantee was within the limit fixed under the FRBM Act.
- As per the FRBM Act 2005, the Government is to ensure that within a period of 10 years, i.e. as on 31 March 2015, total liabilities do not exceed 40 per cent of the estimated GSDP for that year. It was observed that this ratio at 35.74 per cent (including guarantees liabilities) was within the ceiling limit laid down in the Act for the year 2015. The Thirteenth Finance Commission has

recommended that the aggregate debt to GSDP ratios of States should be reduced to 25 per cent by 2014-15. The Government should take appropriate action to reduce the Debt/GSDP ratio to the prescribed limit. The ratios of total liabilities to GSDP and revenue receipts during the year at 35.74 per cent and 167.85 per cent respectively, were also less than the corresponding BE of 40.70 per cent and 175.61 per cent respectively.

1.8 Debt Sustainability

Apart from the magnitude of debt of the Government, it is important to analyze various indicators that determine the debt sustainability¹⁴ of the State. This section assesses the sustainability of debt of the Government in terms of debt stabilization¹⁵; sufficiency of non-debt receipts¹⁶; net availability of borrowed funds¹⁷; the burden of interest payments (measured by the ratio of interest payments to revenue receipts) and the maturity profile of Government securities. **Table-1.21** analyzes the debt sustainability of the State according to these indicators for the period of five years beginning from 2005-06.

Table 1.21: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilisation (Quantum Spread + Primary Deficit)	63	3,890	2,740	3,764	2,117
Sufficiency of Non-debt Receipts (Resource Gap)	1,921	1,816	(-)29	(-)1,649	(-)1,766
Net Availability of Borrowed Funds (percentage in bracket)	1,529 (14)	101 (1)	(-)2,160 (-20)	791 (5)	3,131 (16)
Burden of Interest Payments (Interest Payments/Revenue Receipt Ratio)	0.17	0.16	0.14	0.12	0.11

14 Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP 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 a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficit should match the increase in capacity to service the debt.

15 A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GSDP 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, the 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, the debt-GSDP ratio would eventually be falling.

16 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.

17 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.

1.8.1 Debt Stabilisation

An analysis of primary deficit vis-à-vis the quantum spread revealed that their sums continued to be positive during 2005-10 showing that the debt was stabilizing.

1.8.2 Sufficiency of Non-debt receipts

During the two years (2005-07), non-debt receipts met not only the incremental requirement of the primary expenditure but after meeting the incremental interest liabilities, resulted in a positive resource gap indicating the increasing capacity of the State to sustain its debt. However, during 2007-08, the incremental non-debt receipts were sufficient to meet the additional requirement of primary expenditure, which increased sharply during the year but were not enough to meet the incremental interest liability resulting in a moderate negative resource gap. During 2008-10, the incremental non-debt receipts were not enough to meet the incremental requirements of primary expenditure resulting in a substantial negative resource gap during the year. This position needs to be reversed in future years.

1.8.3 Net availability of funds

- The debt redemption ratio increased from 0.86 to 1.20 during the period 2005-08, but decreased to 0.95 and 0.84 in 2008-09 and 2009-10 mainly due to significant receipts under internal debt and loans and advances from GOI. During the current year, internal debt redemption was 71 *per cent* of fresh debt receipts, redemption of GOI loans was 86 *per cent* while in case of other obligations, repayments were 93 *per cent* of fresh receipts. These trends indicated that the debt receipts were mainly utilised for repayment of debt.
- Out of receipts of ₹7,258 crore under Internal Debt, the Government raised market loans of ₹5,821 crore during the year at an average interest rate of 8.37 *per cent* per annum, ₹603 crore from NABARD and ₹810 crore from NSSF. The Government borrowed ₹1,345 crore from GOI. The receipt of loans and advances from GOI increased from ₹1,154 crore in 2008-09 to ₹1,345 crore in 2009-10 mainly due to increase in the receipt of Block Loans under 'Loan for State/Union Territories Plan Scheme'.
- Repayments of Internal Debt (₹5,140 crore) and Loans and Advances from GOI (₹1,159 crore) included payment of interest of ₹3,905 crore (62 *per cent*) and debt relief of ₹363 crore (six *per cent*) with only ₹2,031 crore (32 *per cent*) for repayment of principal debt. This indicated that most of the amounts of repayments were for payment of interest. As on 31 March 2010, 27 *per cent* of the existing market loans of the Government carried an interest rate exceeding 10 *per cent*.

1.8.4 Maturity Profile of State Debt

Table-1.22: Maturity Profile of State Debt for the years 2008-09 and 2009-10

(₹ in crore)

In Years	FY 2008-09				FY 2009-10			
	6003-Internal Debt Amount	6004-Loans and Advances Amount	Total Amount	Per-centage of Repayment due to total debt	6003-Internal Debt Amount	6004-Loans and Advances Amount	Total Amount	Per-centage of Repayment due to total debt
0-1	1,123.12	456.70	1,579.82	3.39	1,099.42	516.27	1,615.69	3.06
1-3	2,540.99	1,030.95	3,571.94	7.66	3,293.24	1,064.44	4,357.68	8.25
3-5	4,005.97	1,152.16	5,158.13	11.06	5,013.71	1,112.10	6,125.81	11.59
5-7	5,298.33	1,206.40	6,504.73	13.95	4,799.48	1,141.27	5,940.75	11.24
7-9	5,509.21	1,202.36	6,711.57	14.39	7,911.45	1,133.99	9,045.44	17.12
9-11	5,330.45	1,197.24	6,527.69	14.00	7,362.20	1,131.08	8,493.28	16.07
11-13	1,460.20	1,193.99	2,654.19	5.69	1,541.20	1,127.80	2,669.00	5.05
13-25 years and above	5,509.96	2,046.70	7,556.66	16.20	5,265.85	1,113.39	6,379.24	12.07
Misc.*	6,363.40	4.17	6,367.57	13.65	6,175.26	2,038.61	8,213.87	15.54
Total	37,141.63	9,490.67	46,632.30		42,461.81	10,378.95	52,840.76	

(Source : State Finance Accounts of the respective years and information furnished by A.G. (A&E) Madhya Pradesh)

* Information about the maturity of loans not available and awaited from State Government/Reserve Bank of India

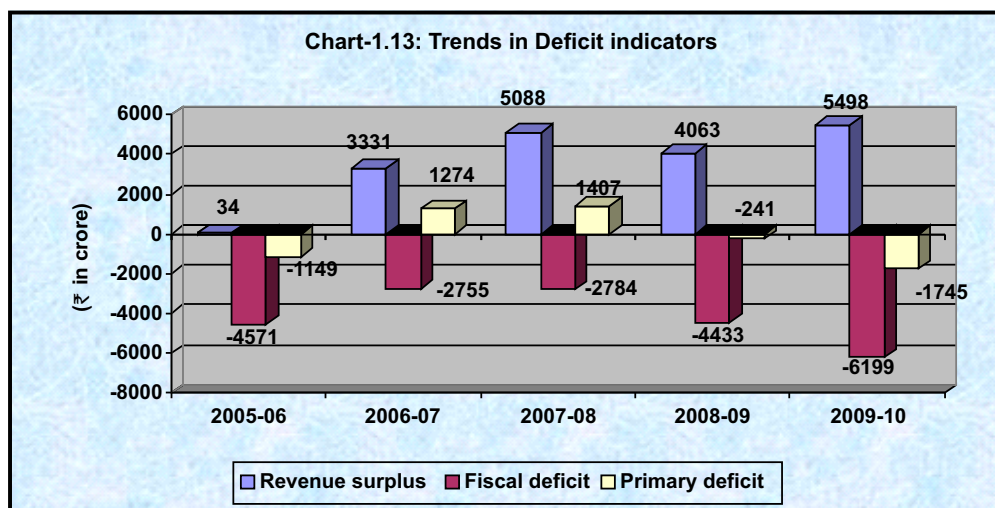
The maturity profile of State debt as given above indicates that the State Government will have to repay eight *per cent* of its debt between one and three years, 12 *per cent* between three and five years, 12 *per cent* between three and five years, 11 *per cent* between five and seven years, 17 *per cent* between seven and nine years, 16 *per cent* between nine and 11 years, five *per cent* between 11 and 13 years and 12 *per cent* after 13 years. The maturity profile of repayment of about 16 *per cent* of State debt was not available as the information had not been received from the Government/Reserve Bank of India. It is critical to have clarity on the repayment schedule of debt. Liability on account of State debt was continuously increasing year after year. As compared to the previous year, the internal debt of the Government and loans and advances from the Central Government had increased at growth rates of 14.32 *per cent* and 9.36 *per cent* respectively at the year ending March 2010 but the burden of interest payments showed a decreasing trend during 2005-10.

1.9 Fiscal Imbalances

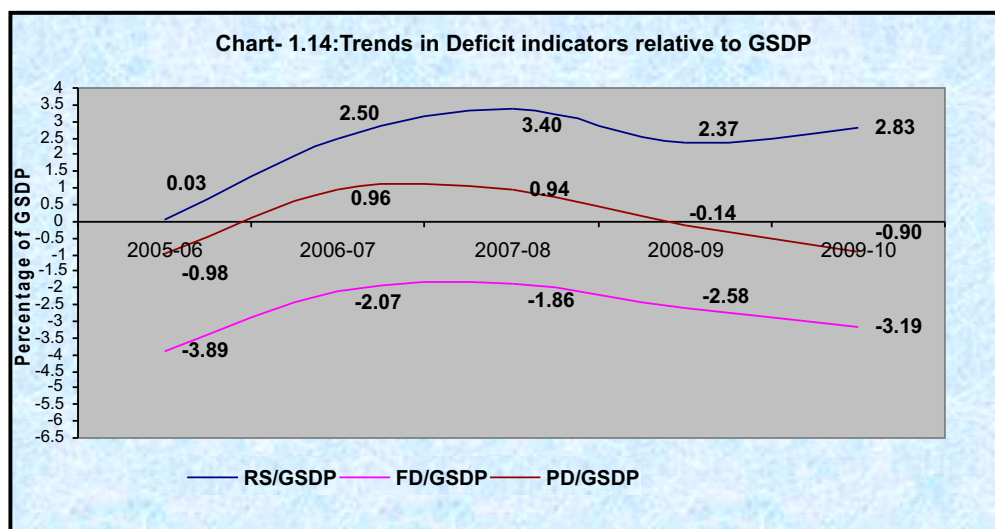
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the 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 these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis the targets set under FRBM Act/Rules for the financial year 2009-10.

1.9.1 Trends of deficits

Charts-1.13 and 1.14 present the trends in deficit indicators over the period 2005-10.



(Source : State Finance Accounts of the respective years)



(Source : State Finance Accounts of the respective years and Directorate of Economic and Statistic, Government of Madhya Pradesh)

- The State had a revenue surplus during 2005-06 to 2009-10. The revenue surplus increased from ₹4,063 crore during 2008-09 to ₹5,498 crore during 2009-10. An increase of 21.63 per cent (₹6,383 crore) in revenue expenditure during 2009-10 in comparison to that of 23.28 per cent (₹7,818 crore) in revenue receipts over 2008-09 led to the increase in the revenue surplus during 2009-10.
- The increase in revenue surplus of the State may however, be seen in view of the fact that there was an increase of 13.60 per cent in the rate of growth of the State's own taxes as against about three per cent in the rate of growth of NPRES in 2009-10 over the previous year. There was also an increase of 6.74 per cent (₹1,120 crore) in 2009-10 as against 4.31 per cent (₹687 crore) in 2008-09

relative to the previous years under Central transfers comprising the State's share in Central taxes and duties and grants-in-aid from GOI.

- Fiscal deficit, defined as the gap between the total expenditure of the Government and its total resources, decreased from ₹4,571 crore in 2005-06 to ₹2,784 crore in 2007-08 but increased from ₹4,433 crore in 2008-09 to ₹6,199 crore in 2009-10. Given an increase in the incremental revenue surplus of ₹1,435 crore during the year, the fiscal deficit increased by ₹1,766 crore, on account of increase in capital expenditure (₹1,212 crore) and increase in disbursement of loans and advances including inter-State settlement (₹1,958 crore) and decrease in non-debt capital receipts (₹31 crore) during 2009-10, relative to the previous year.
- Given the increase in fiscal deficit (₹1,766 crore) and increase in interest payments (₹262 crore), the primary deficit of ₹241 crore in 2008-09 increased to ₹1,745 crore in 2009-10.
- The revenue surplus as a percentage of GSDP increased from 2.37 per cent in 2008-09 to 2.83 per cent in 2009-10 which was more than the BE of 0.99 per cent. Though the fiscal deficit relative to GSDP increased from 2.58 per cent in 2008-09 to 3.19 per cent in the current year, it remained within the 3.73 per cent ceiling prescribed in the BE as well as the amended norm of four per cent recommended under the FRBM Act 2005.

1.9.2 Components of Fiscal Deficit and its Financing pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table-1.23**.

Table-1.23: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit		- 4,571	- 2,755	- 2,784	- 4,433	- 6,199
1	Revenue Surplus	34	3,331	5,088	4,063	5,498
2	Net Capital Expenditure	- 6,623	- 5,161	- 6,822	- 6,689	- 7,903
3	Net Loans and Advances	2,018	- 925	- 1,050	- 1,807	- 3,794
Financing pattern of Fiscal Deficit						
1	Market Borrowings	944	1,063	1,337	3,957	5,016
2	Loans from GOI	-121	-311	102	709	888
3	Special Securities issued to NSSF	2,998	2,045	128	-126	492
4	Loans from Financial Institutions	385	76	128	51	-188
5	Reserve Funds	246	422	-34	12	324
6	Small Savings, PF etc.	1	158	193	204	412
7	Deposits and Advances	595	782	274	237	705
8	Suspense and Misc.	60	71	-18	-43	10
9	Remittances	39	23	57	62	31
10	Others	-8	8			
11	Cash balances increase(+)/ decrease(-)	568	1,582	- 617	630	1,491

(Source: State Finance Accounts of the respective years)

During 2005-06 to 2007-08, the fiscal deficit was mainly financed from the resources raised in respect of market borrowings, loans from financial institutions and special securities issued to NSSF, while during 2008-09 to 2009-10, the fiscal deficit

substantially increased and was financed by a significant increase in market borrowings and loans from GOI.

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. 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) was not having any asset backup. The bifurcation of the primary deficit (**Table-1.24**) would indicate the extent to which the deficit was on account of enhancement in capital expenditure, which may be desirable to improve the productive capacity of the State's economy.

Table-1.24: Primary deficit/surplus – bifurcation of factors

(₹ in crore)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure (CE)	Loans and Advances*	Primary Expenditure (PE)	Non-debt receipt vis-à-vis Primary revenue expenditure	Primary Deficit (-)/ surplus(+)	CE as per cent to PE
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)	9
2005-06	23,449	17,141	6,623	834	24,598	6,308	-1,149	26.92
2006-07	25,732	18,334	5,170	954	24,458	7,398	1,274	21.14
2007-08	30,807	21,410	6,833	1,157	29,400	9,397	1,407	23.24
2008-09	33,656	25,322	6,713	1,862	33,897	8,334	-241	19.80
2009-10	41,443	31,443	7,925	3,820	43,188	10,000	-1,745	18.35

* Including Inter-State settlement

(Source : State Finance Accounts of the respective years)

- The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2005-10 reveals that the non-debt receipts were enough to meet the primary revenue expenditure, thereby generating a surplus, which consistently increased from ₹6,308 crore in 2005-06 to ₹9,397 crore in 2007-08 but decreased to ₹8,334 crore in 2008-09 and significantly increased to ₹10,000 in 2009-10, due to the higher rate of growth of revenue receipts mainly on account of own tax revenue and Central transfers and less increase in rate of growth of NPRES. In other words, the non-debt receipts of the State were enough to meet the primary expenditure¹⁸ requirements in the revenue account and left some receipts to meet the expenditure under the capital account.
- Capital expenditure as a percentage of primary expenditure showed a decreasing trend during 2005-08 and declined from 26.92 per cent in 2005-06 to 18.35 per cent in 2009-10. During 2006-08, the State achieved a primary surplus but reverted to primary deficits during 2005-06 and 2008-10 when the total non-debt receipts fell short of the total primary expenditure. During

¹⁸ Primary expenditure of the State defined as the total expenditure net of the interest payments, indicates the expenditure incurred on the transactions undertaken during the year.

2009-10, an increase in primary deficit was experienced mainly due to the increase in the disbursement of loans and advances.

1.10 Conclusion

Management of Fiscal imbalances

- The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit/surplus – indicated a mixed trend in 2009-10 as revenue surplus, fiscal deficit and primary deficit substantially increased relative to the previous year.
- The increase in the revenue surplus of the State was mainly due to the increase of growth in the State's own Resources including Central transfers comprising the State's share in Central taxes and duties and grants-in-aid from GOI during 2009-10 as compared to the previous year.
- The fiscal deficit relative to GSDP, increased from 2.58 *per cent* in 2008-09 to 3.19 *per cent* in the current year, but remained within the 3.73 *per cent* ceiling prescribed in BE and less than four *per cent* permitted by GOI in order to counter the impact of the economic slowdown.
- The Compound Annual Growth Rate of non-tax revenue receipts in Madhya Pradesh during the last decade has slowed down in comparison to that in other General Category States.

Management of liabilities

- The high growth of fiscal liabilities (12.28 *per cent* over the previous year) is a matter of concern and prudent debt management will have to be ensured to keep the growth of fiscal liabilities in check.
- A Sinking Fund for amortization of loans had not been set up by the Government. The annual incremental guarantees were within the limit fixed under the FRBM Act and the ratio of total liabilities to GSDP, although within the ceiling limit of 40 *per cent* prescribed by FRBM Act 2005 continued to increase due to persistent increase in fiscal deficits till the current year.
- The maturity profile for repayment of about 16 *per cent* of the State's debt was not available as information had not been received from the State Government/Reserve Bank of India. It is critical to have clarity on the repayment schedule of debts.

Net availability of funds

During the current year, internal debt redemption was 71 *per cent* of fresh debt receipts and redemption of GOI loans was 86 *per cent* while in the case of other obligations, repayments were 93 *per cent* of the fresh receipts, indicating that the fresh debt receipts were mainly utilised for repayment of debt.

Expenditure Management

The expenditure pattern of the State revealed that the revenue expenditure as a percentage of total expenditure continued to share a dominant proportion of the total expenditure at 75 per cent during 2009-10, leaving less resources for expansion of services and creation of assets. Moreover, within the revenue expenditure, the NPPE of ₹26,059 crore in 2009-10, remained significantly higher than the normatively assessed level of TFC (₹19,257 crore) for the year. Further, salary and wages expenditure, pension payments, interest payments and subsidies constituted about 78 per cent of the NPPE during the year. Decrease in the proportion of capital expenditure on Social Services and marginal decline in the Economic Services to total expenditure and also fall in revenue expenditure on Operation and Maintenance during the current year over the previous year indicated decline in the quality of services.

Return on investment

The average return on investments made by the Government was 0.61 per cent during the last three years while the Government paid an average interest rate of 7.30 per cent on its borrowings during 2007-10.

1.11 Recommendations

- Arrears of revenue amounting to ₹897 crore as on 31 March 2010 may be got realized by strengthening tax recovery measures (**Paragraph 1.3.3**).
- The Government needs not only to invest its high cost borrowings more judiciously to get better returns but also address the losses on account of various sick units by their restructuring and rehabilitation and/or by considering disinvestment of such units (**Paragraph 1.6.1**).
- Trends indicate that the increasing fiscal liabilities accompanied with negligible rates of return on Government investments and inadequate recovery of interest on loans and advances might put fiscal stress on the State in the medium to long run unless suitable measures are initiated to make the investments including loans and advances, commercially viable, compress the Non-Plan revenue expenditure and mobilize additional resources both through tax and non-tax sources in the ensuing years (**Paragraph 1.7.2, 1.6.1 and 1.6.2**).
- Greater fiscal priority may be given to the education and health sectors as other General Category States are spending a greater proportion of the aggregate expenditure on these heads than Madhya Pradesh (**Paragraph 1.5.1**).

- The expenditure pattern in the education and health sectors needs correction in the ensuing years as per the norms of the Twelfth Finance Commission according to which the Non-Plan salary expenditure in these sectors should increase only by five to six *per cent* while non-salary expenditure under Non-Plan heads should increase by 30 *per cent* per annum during the award period. The actual Non-Plan salary component under the education sector increased by 23 *per cent* over 2008-09 while the Non-Plan non-salary components increased by 36 *per cent*. Under the health and family welfare sector, the Non-Plan salary component increased by 27 *per cent* and the Non-Plan non-salary component increased by nine *per cent* over the previous year (**Paragraph 1.5.2**).
- A system has to be put in place to ensure proper accounting and accountability of GOI funds that are transferred directly to State implementing agencies (**Paragraph 1.2.2**).
- No information in respect of incomplete projects was received from the State Government. A system of providing such information to the Accountant General (Accounts and Entitlement) may be ensured by the State Government to include in Finance Accounts of the State. Transparency in the status of incomplete projects along with complete details of revised costs and reasons for delay will go a long way in avoiding time and cost over runs.