CHAPTER I
FINANCES OF THE STATE GOVERNMENT

Manipur is a special category State and is located in the north-eastern corner of India. The land-locked State is bounded by the state of Nagaland in the North, Mizoram in the south, Cachar district of Assam in the west, and has an international border-line with Myanmar in the east. The total geographical area of 22,327 sq. km. is divided into two parts – the central valley portion and hill portion surrounding the valley. There are nine districts in the State, of which four are in the valley and five districts are located in the hills. The State is connected by three National Highways (NH) *viz.,* NH-39, NH-53 and NH-150, although the road conditions of the latter two NHs are reported to be of extremely poor condition. There is an airport at Imphal, the capital town of the State. Presently, rail-line connects only Jiribam town at the border of Assam, although efforts are being made to extend it to Imphal. With a population of 21.67 lakh (2001 census), density of population of the State at 103 persons per sq. km. is quite low as compared to all India average figure. The agrarian state has 76 *per cent* of its working population engaged in agriculture. The literacy rate of 70.53 *per cent* is higher than the average literacy rate of the country.

GSDP of the State registered a robust growth of 13.47 *per cent* (₹ 8687 crore) during 2009-10 against a growth of 12.60 *per cent* (₹ 7656 crore) during 2008-09. The Compounded Annual Growth Rate (CAGR) of the State during 2000-09 was 11.91 *per cent*, which was marginally higher than that of NE States (11.81 *per cent*). The CAGR of GSDP of the State for 2000-10 improved to 12.08 *per cent*; indicating a faster growth of GSDP in 2009-10 **(Appendix 1.1 D)**. The Fiscal deficit of the State increased from ₹ 217 crore in 2008-09 to ₹ 733 crore in 2009-10. As a result, the ratio of Fiscal Deficit to GSDP increased from 2.83 *per cent* in 2008-09 to 8.43 *per cent* in 2009-10.

This chapter provides a broad perspective of the finances of the Government of Manipur during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years.

1.1 Summary of Current Year's Fiscal Transactions

The table below presents the summary of the State Government's fiscal transactions during the current year (2009-10) *vis-à-vis* the previous year while **Appendix 1.2** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations

(₹ in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-A: Revenue					Non - Plan	Plan	Total
3872.62	Revenue receipts	3873.14	2,622.28	Revenue expenditure	2304.51	709.89	3014.40
170.07	*Tax revenue*	*196.04*	*1,094.61*	*General services*	*1160.89*	*20.40*	*1181.29*
253.46	*Non-tax revenue*	*239.75*	*803.05*	*Social services*	*573.28*	*317.88*	*891.16*
580.81	*Share of Union Taxes/ Duties*	*597.56*	*724.62*	*Economic services*	*444.37*	*371.61*	*815.98*
2,868.28	*Grants from Government of India*	*2839.79*	-	*Grants-in-aid and Contributions*	*125.97*	-	*125.97*
Section-B: Capital							
-	Misc. Capital Receipts	-	1,466.80	Capital Outlay	(-) 0.80	1588.58	1587.78
0.66	Recoveries of Loans and Advances	3.28	1.08	Loans and Advances disbursed	0.19	6.70	6.89
314.54	Public Debt receipts*	519.89	309.79	Repayment of Public Debt *			116.75
-	Contingency Fund	-	-	Contingency Fund			-
2847.66	Public Account receipts	3218.15	2,559.71	Public Account disbursements			3137.29
540.23	Opening Cash Balance	616.05	616.05	Closing Cash Balance			367.40
7,575.71	**Total**	**8230.51**	**7,575.71**	**Total**			**8230.51**

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

Following are the significant changes during 2009-10 over the previous year:

- **Revenue receipts** increased marginally by ₹ 0.52 crore (0.01 *per cent*) over the previous year. Though Tax revenue increased by ₹ 25.97 crore and State's share of Union Taxes and Duties by ₹ 16.75 crore, Non–tax revenue and Grants-in-aid from Government of India decreased by ₹ 13.71 crore and ₹ 28.49 crore respectively, resulting in the stagnating position of Revenue receipt. The Revenue receipts at ₹ 3873.14 crore is, however, higher by ₹ 354.58 crore than the assessment made by the State Government in its Fiscal Correction Path (FCP) (₹ 3518.56 crore), but lower by ₹ 131.45 crore than the assessment made in its Medium Term Fiscal Policy Statement (MTFPS) (₹ 4004.59 crore) for the year 2009-10.

- **Revenue expenditure** and **Capital expenditure** increased by ₹ 392.12 crore (14.95 *per cent*) and ₹ 120.98 crore (8.25 *per cent*) respectively over the previous year. The Revenue expenditure was higher by ₹ 380.10 crore than the FCP (₹ 2634.30 crore) but lower by ₹ 41.51 crore than the MTFPS (₹ 3055.91 crore). Capital expenditure was higher by ₹ 602.30 crore than the FCP (₹ 985.48 crore) and by ₹ 115.65 crore than the MTFPS (₹ 1472.13 crore);

- **Disbursement of Loans and Advances** increased by ₹ 5.81 crore, more than five times over the previous year. Recoveries of Loans and advances also increased by ₹ 2.62 crore, more than four times over the previous year;

- While **Public Debt receipts** increased by ₹ 205.35 crore (65.28 *per cent*) its repayments decreased by ₹ 193.04 crore (62.31 *per cent*) over the previous year;

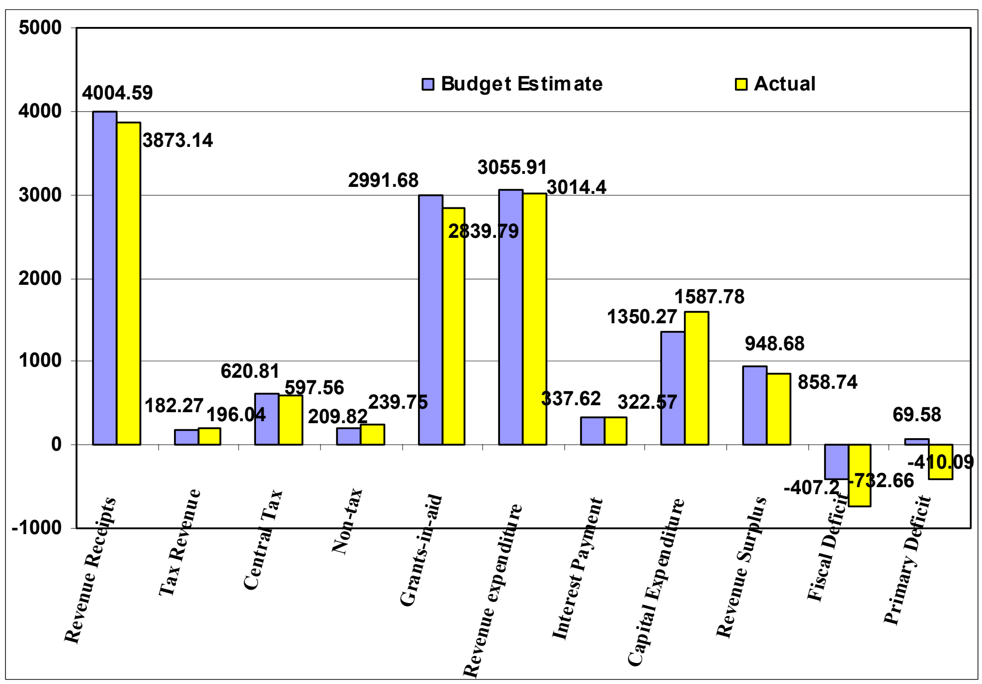
- **Public Accounts receipts and disbursements** increased by ₹ 370.49 crore (13.01 *per cent*) and ₹ 577.58 crore (22.56 *per cent*) over the previous year. Thus, net receipts decreased by ₹ 207.09 crore during the year;

- **Cash balance** of the State decreased by ₹ 248.65 crore (40.36 *per cent*) over the previous year.

The chart below presents the budget estimates and Actuals for some important fiscal parameters during 2009-10.

Chart 1.1 : Selected Fiscal Parameters, Budget estimates *vis-à-vis* Actuals

(₹ in crore)



The above chart depicts that both Revenue Receipts and Revenue expenditure were less than the budget estimate by ₹ 131.45 crore and by ₹ 41.51 crore respectively, resulting in Revenue Surplus of ₹ 858.74 crore against budget estimate of ₹ 948.68 crore. However, due to excess expenditure on Capital expenditure *vis-à-vis* budget estimate, the Fiscal deficit exceeded its budget projection by ₹ 325.46 crore.

1.2 Fiscal Responsibility and Budget Management (FRBM) Act, 2005

As per recommendation of the Twelfth Finance Commission, the Manipur Fiscal Responsibility and Budget Management Act (MFRBM) Act, 2005, the State Government prepares a Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets, each year for placement in the State Assembly.

The performance of the State during 2009-10 in terms of Fiscal targets fixed for selected variables laid down in the FRBM Act, MTFPS and the Fiscal Correction Path (FCP) *vis-à-vis* achievements is given in the table below:

Table 1.2 Trends in Major fiscal parameters/variables *vis-à-vis* projections for 2009-10

(₹ in crore)

Fiscal variables	Targets as per FRBM Act	Projections made in		Actual
		FCP	MTFPS	
Revenue Surplus	Revenue deficit targeted at 0.00 (by 31.3.2009)	884.27	948.68	858.74
Fiscal Deficit	--	(-) 11.40	(-) 407.20	(-) 732.66
Fiscal Deficit/ GSDP *(per cent)*	3 *per cent* of GSDP (by 31.3.2009)	0.19 (GSDP - 6074.58)	6.05 (GSDP - 6724.23)	8.43 (GSDP - 8686.81)
State's outstanding guarantees	Not to exceed thrice the State's Own tax Revenue receipts of the second preceding year i.e.₹ 442.35 crore.	87.34	--	195
Salary expenditure	35 *per cent* of Revenue expenditure net interest payment and pension *i.e.*₹ 839.52 crore.	912.47	1,366.91	1140.77*

* including ₹ 1.99 crore on wages

The above table reveals that except for containing Revenue Deficit and State's guarantees *vis-à-vis* FRBM targets, none of the FRBM/FCP/MTFPS targets could be achieved. Although there was Revenue surplus during 2009-10, the surplus was less than what was projected in the FCP and MTFPS. The State's guarantees was also not limited to the projections made in the FCP. Increase of Fiscal deficit from ₹ 217 crore to ₹ 733 crore, more than three times than that of 2008-09 is an indication that the State may face fiscal difficulties of debt trap, especially in view of the fact that the Fiscal deficit is more than the closing cash balance of the current year. The substantial increase in Fiscal deficit is mainly due to increase in expenditure (both under revenue and capital accounts) while there was marginal increase in Revenue receipts. The expenditure on Salary was higher than the targets of FRBM Act/FCP but lower than the MTFPS.

The Twelfth Finance Commission has recommended growth of Tax and Non-Tax Revenue during 2005-10. The targets fixed by the TFC *vis-à-vis* the Actuals are given below:

Table 1.3: TFC recommendations of Tax and Non-Tax *vis-à-vis* Actual

(₹ in crore)

Year	TFC			Actual			Shortfall (percentage)		
	Tax	Non-Tax	Total	Tax	Non-Tax	Total	Tax	Non-Tax	Total
2005-06	151.34	32.39	183.73	95	76	171	56.34 (37)	-	12.73 (7)
2006-07	169.65	40.15	209.80	122	181	303	47.65 (28)	-	-
2007-08	190.17	48.76	238.93	147	165	312	43.17 (23)	-	-
2008-09	213.18	58.34	271.52	170	254	424	43.18 (20)	-	-
2009-10	238.98	69.11	308.09	196	240	436	42.98 (18)	-	-

The State could not achieve the targets of Tax revenue collection fixed by the TFC during the award period of 2005-10. However, the State was able to decrease the shortfall in each succeeding year. The actual revenue collection from Non-tax revenue, however, was much higher than the TFC targets and thus as a result, there was no shortfall in own revenue collection *vis-à-vis* TFC targets except for the year 2005-06.

The targets fixed by the TFC in respect of Non-Plan Revenue Expenditure (NPRE) *vis-à-vis* actual are as follows:

Table 1.4: TFC recommendations of NPRE *vis-à-vis* Actual

(₹ in crore)

Sectors	TFC					Actual				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
General Services of which	678.08	734.75	783.47	849.44	912.14	721.10	869.08	928.72	1091.03	1160.89
Interest Payment	*321.47*	*345.58*	*371.50*	*399.36*	*429.31*	*238*	*289*	*298*	*314*	*323*
Pension	*202.77*	*223.05*	*245.36*	*269.89*	*296.88*	*182*	*168*	*239*	*206*	*267*
Social Services	441.16	480.85	524.24	571.69	623.58	455.69	446.62	484.90	571.58	573.28
Economic Services	203.91	214.36	225.34	236.91	249.06	415.69	678.95	399.70	469.62	444.37
Others	0	0	29.87	32.11	34.52	-	-	-	-	125.97
Total	**1323.15**	**1429.96**	**1562.92**	**1690.15**	**1819.30**	**1592.48**	**1994.65**	**1813.32**	**2132.23**	**2304.51**

In none of the award period of 2005-10, the State Government could contain the NPRE within the limits fixed by the TFC. However, under Social sector NPRE was kept confined within the limits fixed by TFC. NPRE was in excess of the TFC limits mainly due to excess under Economic sector and General Services sector. The excess under Economic sector was mainly due to purchase of Power. The Interest payment and Pension components under General Services sector, however, was kept within the limits fixed by TFC.

1.3 Growth and Composition of Gross State Domestic Product

Gross State Domestic Product (GSDP), a major fiscal indicator is considered to be a key factor for assessing the performance of the State's economy. It is prepared based on income generating approach that measures gross income generated by factors of production physically located within the geographical boundaries of the State and also represents the volume of goods and services produced within the State. During 2009-10, the advance estimate GSDP for the State of Manipur was ₹ 8686.81 crore, which are arrived at on the basis of current price. The table below shows the trend of growth of GSDP for the last five years.

Table 1.5: GSDP and the rate of growth during 2005-10

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Gross State Domestic Product*	5723	6137	6799	7656 (Q)	8687 (A)
Growth rate of GSDP	11.55	7.22	10.79	12.60	13.47

(Q) – Quick estimates, (A) – Advanced estimates

* Difference in GSDP of Audit Reports 2008-09 and 2009-10 is due to adoption of different base years *i.e.* 1999-00 and 2004-05

Source: Economics and Statistics Department

As per the preliminary figures of 2008-09 and 2009-10, the State could register a more robust GSDP growth as compared to earlier years.

The Compounded Annual Growth Rate of GSDP in respect of Manipur (2000-01 to 2008-2009) was 11.91 *per cent* which was marginally higher than NE average of 11.81 *per cent*. Considering the GSDP growth of Manipur with respect to NE, Manipur needs to be consistent on the present rate and attempt higher growth rate by intensifying concrete income generating activities.

1.4 Resources of the State

1.4.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of Tax revenues, Non-tax revenues, State's share of union taxes and duties and Grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2005-10. **Chart 1.3** depicts the composition of resources of the State during the current year.

Chart 1.2: Trends in Receipts

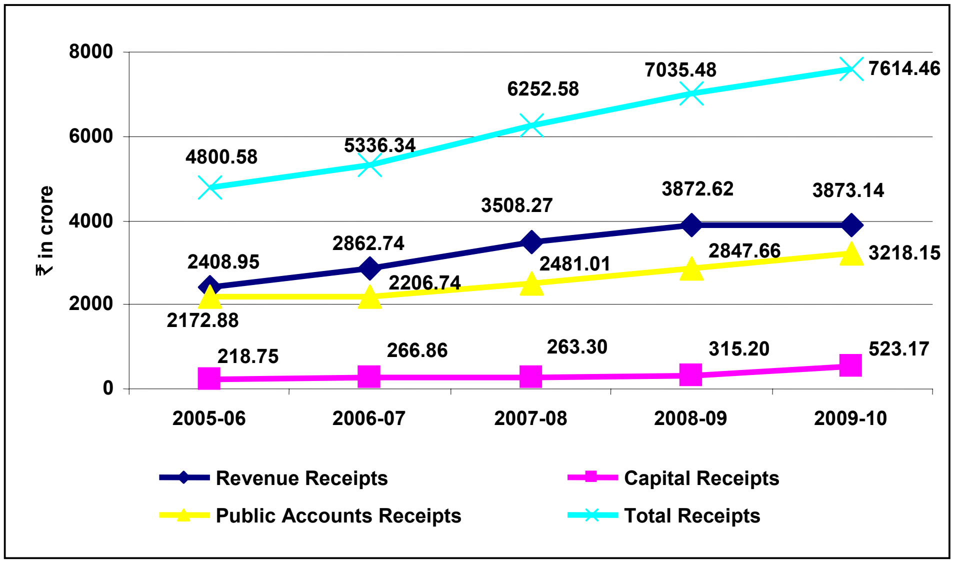
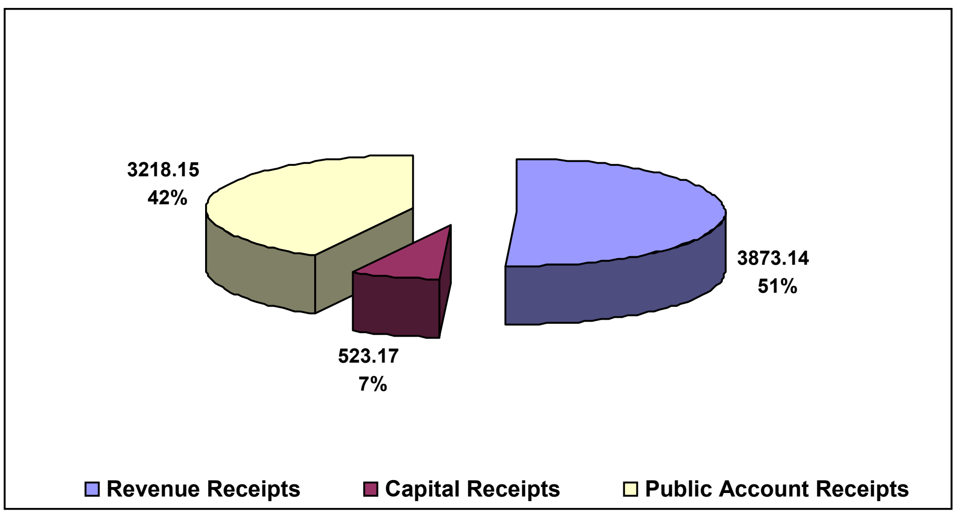


Chart 1.3: Composition of Receipts during 2009-10

(₹ in crore)



- Revenue Receipts of the State increased by 61 *per cent* from ₹ 2408.95 crore in 2005-06 to ₹ 3873.14 crore in 2009-10. However, as compared to 2008-09, there was marginal increase of ₹ 0.52 crore in 2009-10, mainly due to decrease in Grants-in-aid from GoI.

- Tax revenue remained stagnant at around three to five *per cent* of Revenue Receipts whereas Non-tax revenue increased from three *per cent* (2005-06) to six *per cent* (2009-10) of the total Revenue Receipts.

- State's share of Union taxes and duties and Grants-in-aid from GoI contributed around 89 to 92 *per cent* of the Revenue Receipts during

2005-10 and thus remained the main contributor of Revenue Receipts of the State.

1.4.2 Funds transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[1] for the implementation of various schemes/programmes in social and economic sectors recognized as critical especially for human and social development of population. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent State's receipts and expenditure as well as other fiscal variables/parameters derived from them are understated. During 2009-10, the Government of India has transferred an amount of around ₹ 845.30 crore[2] to the Implementing Agencies. Details are given in **Appendix 1.3.** Significant amount released for major programmes/schemes are detailed in the table below:

Table-1.6: Funds transferred directly to State Implementing Agencies

(₹ in crore)

Sl. No.	Programme/Scheme	Implementing Agency in the State	Total fund released by the GoI during 2009-10
1	National Rural Employment Guarantee Scheme (NREGS)	Project Director, District Rural Development Agencies (DRDA)	436.81
2	Pradhan Mantri Gram Sadak Yojana (PMGSY)	State PMGSY Implementing Agencies	118.16
3	National Rural Health Mission (NRHM)	State Health Society, State TB Society *etc*.	77.59*
4	Setting –up of check post	DRDA, Chandel	21.47
5	Indira Awaj Yojana (IAY)	District Rural Development Agencies	20.42
6	Accelerated Rural Water Supply Programme	Public Health Engineering Department	19.84
7	National AIDS Control including STD Control	Manipur State AIDS Control Society	18.88
8	Rashtriya Madhyamik Shiksha Abhiyan	State Implementing Society	17.64
9	Central Rural Sanitation Scheme	Public Health Engineering Department	11.78
	Total		**742.59**

* including ₹ 10.52 crore for Hospitals and Dispensaries (AYUSH)

Source: Website of Controller General of Accounts.

The above table shows that an amount of ₹ 436.81 crore (about 52 *per cent* of the total funds transferred) was given for National Rural Employment Guarantee Programme, ₹ 118.16 crore (about 14 *per cent*) for PMGSY and ₹ 77.59 crore (about 9 *per cent*) for National Rural Health Mission. With the transfer of an amount of around ₹ 845.30 crore directly by the GoI to the State Implementing Agencies, the total availability of State resources during 2009-10 had increased from ₹ 7614.46 crore to ₹ 8459.79 crore during the current year. It is evident from the above that there is no single agency monitoring the funds directly transferred by the GoI and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by the State

[1] State Implementing Agency includes any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA and State Health Mission for NRHM *etc*.

[2] Information as obtained from the website of Controller General of Accounts.

Implementing Agencies and funded directly by the GoI and therefore, utilization of these funds remains to be verified by audit to establish accountability of the State Government for these funds.

An analysis of two of these schemes *viz.,* National Rural Health Mission (NRHM) and Rashtriya Madhyamik Shiksha Abhiyan (RMSA) revealed the following:

- **National Rural Health Mission (NRHM)**

The activities of the NRHM in the State are carried out through State Health Society, State Tuberculosis Society, State Leprosy Society *etc.* A test check revealed that during 2009-10, ₹ 77.95 crore, including ₹ 10.52 crore for Hospitals and Dispensaries (AYUSH) under NRHM, was released by the GoI for the programme. Details are shown below:

Table-1.7: Scheme-wise receipt and expenditure under NRHM for the year 2009-10

(₹ in crore)

Implementing Agencies	Name of the Scheme/Programme	Amount	Expenditure
State Health Society	Reproduction and Child Health (RCH –II)	28.16	8.97
	Additionalities under NRHM	32.55	34.78
	Pulse Polio Immunization (PPI)	1.18	1.03
	National Vector Borne Disease Control Programme (NVBDCP)	1.95	1.95
State Blindness Control Society	National Programme for Control of Blindness (NPCB)	0.68	NA
State Leprosy Society	National Leprosy Eradication Programme (NLEP)	0.46	0.46
State Tuberculosis Society	Revised National Tuberculosis Control Programme (RNTCP)	2.09	2.08
State Health Department	Hospitals and Dispensaries (under NRHM)	10.52	NA
	Total	**77.59**	**49.27**

(Source: CGA's web-site and records of the Societies)

Out of ₹ 28.16 crore allotted for RCH –II, only ₹ 8.97 crore could be spent as major portion of the fund of ₹ 22.40 crore was received at the fag end of the year. The excess in expenditure under Additionalities under NRHM was met from the unspent balance of previous year. Although ₹ 1.95 crore in respect of National Vector Borne Disease Control Programme (NVBCP) was released, the State Malaria Officer reported receipt of ₹ 1.41 crore only, as the remaining amount of ₹ 0.54 crore was released by the State Health Society in May 2010 and hence could not be accounted for in 2009-10. Out of ₹ 0.68 crore received under National Programme for Control of Blindness, only ₹ 0.56 crore had been sub-allocated to the implementing agencies. Further, an amount of ₹ 19.20 lakh and ₹ 35.73 lakh was released for implementation of Prevention and Control of Deafness and National Mental Health Programme respectively by the Central Government to the State Health Society. However, these amounts were not reflected in the web-site of the Controller General of Account's website.

As of November 2010, utilization certificates in respect of the Leprosy Programme, Revised National Tuberculosis Control Programme and NVBDCP could be furnished as audit of accounts by the Statutory Auditor was yet to be completed.

➢ **Rashtriya Madhyamik Shiksha Abhiyan (RMSA)**

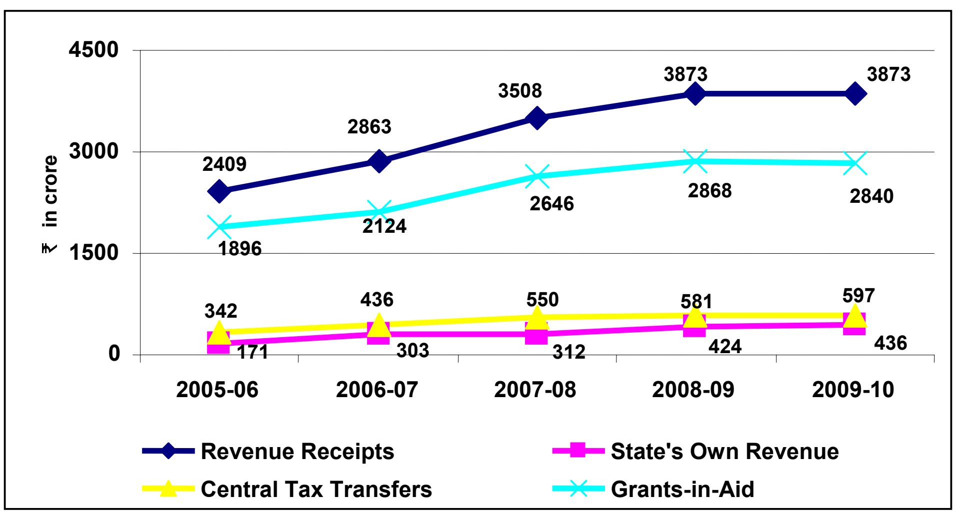
Rashtriya Madhyamik Shiksha Abhiyan (RMSA) is a new centrally sponsored scheme launched by the Government of India in 2007 for universalisation of access to and improvement of quality at the secondary and higher secondary stage. The share of financing pattern of the scheme in NE states is 90:10 between Centre and the State. In Manipur, the scheme is implemented by the State Implementation Society.

During 2009-10, the Society received an amount of ₹ 17.64 crore for implementation of the scheme. The sanction order stipulated that the State's share is to be released within a week of receiving the Central share and 1.5 *per cent* of the amount could be spent on Management, Monitoring, Evaluation and Research (MMER). As on October 2010, an amount of ₹ 15.95 crore has been spent, of which ₹ 49.37 lakh was on MMER account *i.e.* 2.80 *per cent* of total amount received, exceeding the limit of 1.5 *per cent*. The State Government had not released (October 2010) its share, the reason of which was not on record.

1.5 Revenue Receipts

Statement-11 of the Finance Accounts details the Revenue receipts of the Government. The Revenue receipts consist of its Own tax and Non-tax revenues, Central tax transfers and Grants-in-aid from GoI. The trends and composition of Revenue receipts over the period 2005-10 are presented in **Appendix 1.5** and also depicted in the chart shown below.

Chart 1.4: Trends in Revenue Receipts



The Compounded Annual Growth Rate of Revenue Receipts for Manipur between 2000-01 and 2008-2009 was 17.80 *per cent* which is higher than the average NE States of 14.87 *per cent*. However, due to stagnation of Revenue Receipt during 2009-10, the CAGR between 2000-10 dropped to 15.67 *per cent*; requiring special attention of the Government for generating more Revenue Receipts.

The trends in Revenue receipts relative to GSDP are presented in the table below:

Table 1.8: Trends in Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (₹ in crore)	**2409**	**2863**	**3508**	**3873**	**3873**
Rate of growth of RR (*per cent*)	38.21	18.85	22.53	10.40	*
GSDP (₹ in crore)	5723	6137	6799	7656 (Q)	8687 (A)
Rate of growth of GSDP (*per cent*)	11.55	7.23	10.79	12.60	13.47
R R/GSDP (*per cent*)	42.09	46.55	51.60	50.59	44.58
Buoyancy Ratios[3]					
Revenue Buoyancy w.r.t. GSDP	3.31	2.61	2.09	0.82	--
State's Own Tax Buoyancy w.r.t GSDP	1.49	3.93	1.89	1.24	1.13

* *Only 0.01 per cent growth*

(Source: Finance Accounts and records of Directorate of Economics and Statistics)

The State's Own Tax remained buoyant as compared to the GSDP during 2009-10. However, as the contribution of the State's Own Tax to the Revenue Receipts of the State is very marginal (about 5 *per cent*), its buoyancy had little impact to the revenue position in the State. As nearly 90 *per cent* of the State's Revenue Receipt is from the Grants-in-Aid and Central transfer of funds, the declining Revenue buoyancy *vis-à-vis* GSDP is a cause of concern; and unless the proportion of State's own Revenue Receipts improves, any less devolution of Central funds in future will have an adverse impact on the State's economy.

1.5.1 State's Own Resources

As the State's share in Central taxes and Grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for plan schemes *etc.*, the State's performance in 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 and Non-tax revenue and their percentage and also expenditure during the year 2005-10 are presented in **Appendix 1.5.** The details of actual Tax revenue and Non-tax revenue as compared to various projections are given below:

Table 1.9: Tax Revenue and Non-Tax Revenue *vis-à-vis* TFC/FCP/MTFPS/Budget

(₹ in crore)

Parameters	Assessment made by TFC	FCP	MTFPS	Budget	Actual
Tax Revenue	238.98	149.48	182.31	182.31	196.04
Non-Tax Revenue	69.11	172.11	209.82	209.82	239.75

[3] 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*.

(a) Tax Revenue

The Compounded Annual Growth Rate of Own Tax Revenue for NE States between 2000-01 and 2008-2009 was 15.15 *per cent* which was lower than that of Manipur (16.81 *per cent*).

The Tax revenue during 2009-10 increased by 15 *per cent* from ₹ 170.07 crore in 2008-09 to ₹ 196.04 crore in 2009-10. The increase of ₹ 25.97 crore was mainly contributed by Sales Tax (₹ 21.90 crore). As in the previous years, Sales tax (₹ 163.28 crore) remained the only major contributor of the State Own Tax resource and accounted for 83 *per cent* of the tax. The Sector-wise component of Tax revenue is given below:

Table 1.10: Sector-wise component of Tax revenue for the years 2005-10

(₹ in crore)

Name of component	Year				2009-10		
	2005-06	2006-07	2007-08	2008-09	BE	2009-10	Variation in Actual and BE *(in per cent)*
Sales Tax	71.17	96.64	120.75	141.38	146.83	163.28	(+) 11
Other taxes on Income and Expenditure	11.97	13.28	14.72	15.46	17.92	17.63	(-) 2
Taxes on vehicles	3.34	3.19	3.57	4.03	5.60	4.34	(-) 23
State Excise	3.26	3.62	3.75	3.91	5.10	4.70	(-) 8
Stamps and Registration Fees	2.80	2.83	2.93	3.18	3.83	4.26	(+) 11
Others	2.46	2.01	1.73	2.11	2.99	1.83	(-) 39
Total	**95.00**	**121.57**	**147.45**	**170.07**	**182.27**	**196.04**	**(+) 8**

There was large variation between Actual figures and Budget estimates on Taxes on vehicles and other components of Tax revenue. The Own Tax revenue (OTR) of the State remained below the normative assessment made by TFC (₹ 238.98 crore) although it was higher than the projections of MTFPS (₹ 182.31 crore), FCP (₹ 149.48 crore) and Budget estimates (₹ 182.27 crore).

(b) Non-tax Revenue

The Non-tax revenue declined by 5 *per cent* from ₹ 253.46 crore in 2008-09 to ₹ 239.75 crore in 2009-10. The decline of ₹ 13.71 crore was mainly due to Miscellaneous General Services (₹ 31.30 crore) and Interest Receipts of State Government (₹ 7.27 crore) offset by increase under Power (₹ 15.78 crore) in addition to Public Works (₹ 9.69 crore). The Sector-wise component of Tax revenue is given below:

Table 1.11: Composition of Non-tax revenue

(₹ in crore)

Name of Component	Year				2009-10		
	2005-06	2006-07	2007-08	2008-09	BE	2009-10	Variation in Actual and BE (in *per cent*)
General Services	12.10	91.94	62.31	105.12	72.06	80.74	(+) 12
Social Services	4.14	3.39	4.79	9.78	6.35	11.63	(+) 83
Economic Services	54.08	50.66	70.00	98.57	92.90	114.65	(-) 23
Interest receipts and dividends *etc.*	6.14	35.05	27.61	39.99	38.51	32.73	(-) 15
Fiscal Services	--	--	--	--	--	*	
Total	**76.46**	**181.04**	**164.71**	**253.46**	**209.82**	**239.75**	**(+) 14**

* ₹ 0.12 lakh only

As can be seen from the above table, there was large variations between Actual figures and Budget estimates. The large variation under Social Services of 83 *per cent* was due to excess in Actual receipt over budget provision in Water Supply and Sanitation (₹ 6.94 crore) offset by less expenditure in Housing (₹ 1.03 crore), Education, Sports, Art and Culture (₹ 0.30 crore) and Medical and Public Health (₹ 0.29 crore). The Non-tax revenue was more than the normative assessment of the TFC and the projections of FCP and MTFPS.

The Compounded Annual Growth Rate of Non-Tax Revenue for Manipur between 2000-01 and 2008-2009 was 25.29 *per cent* which was much higher than the average NE States (17.53 *per cent*).

1.5.2 Cost of recovery

The details of Non-tax revenue receipts (NTR), Non-plan revenue expenditure (NPRE) and the percentage of NTR *vis-à-vis* NPRE of some selected services are shown in the table below:

Table 1.12: Cost of recovery of socio-economic services during 2008-10

(₹ in crore)

Name of Services	2008-09			2009-10		
	Non-tax revenue receipts	Non-plan revenue expenditure	NTR as percentage of NPRE	Non-tax revenue receipts	Non-plan revenue expenditure	NTR as percentage of NPRE
Power	88.28	185.33	48	104.07	164.67	63
Water Supply and Sanitation	6.89	16.99	41	9.48	58.17	16
Irrigation	8.11	15.21	53	7.18	11.83	61

NTR as percentage of NPRE in Water Supply and Sanitation declined significantly from 41 *per cent* in 2008-09 to 16 *per cent* in 2009-10 mainly due to increase in NPRE from ₹ 16.99 crore to ₹ 58.17 crore. The increase (₹ 41.18 crore) in NPRE in Water Supply and Sanitation was mainly due to increase in Direction and Administration (₹ 29.82 crore).

1.5.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the last three years (2007-08 to 2009-10) along with relevant All India

Average percentage of expenditure on collection to gross collection for 2008-09 are mentioned in the table below:

Table 1.13: Expenditure on collection *vis-à-vis* percentage to gross collection

(₹ in crore)

Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 2008-09
Taxes/VAT on sales, trade *etc*.	2007-08	120.75	1.41	1.17	0.88
	2008-09	141.38	1.62	1.15	
	2009-10	163.28	1.54	0.94	
State excise *	2007-08	3.75	1.61	42.93	3.66
	2008-09	3.91	1.75	44.76	
	2009-10	4.70	1.74	37.02	
Stamp duty and registration fees *	2007-08	2.93	0.87	29.69	2.77
	2008-09	3.18	0.93	29.25	
	2009-10	4.26	1.27	29.81	
Taxes on vehicles	2007-08	3.57	1.66	46.50	2.93
	2008-09	4.03	1.96	48.64	
	2009-10	4.34	1.90	43.78	

* Since cost of collection has not been segregated, the expenditure under Direction and Administration has been taken as cost of collection.

The table above indicates that the percentage of expenditure on collection in respect of all the components of State's Own Tax revenue were much higher than All India Average cost of collection which is indicative of the fact that excess expenditure incurred on collection of revenue might impede in the path of improvement towards achieving a healthy fiscal path in the State.

1.5.4 Loss of Revenue due to Evasion of Taxes, Write off/Waivers and Refunds

During 2009-10, evasion of tax amounting to ₹ 102.58 crore due to non/short levy (including penalty) of Sales tax/VAT and professional tax, loss of revenue (energy charges) and non-realization of registration fee in 67 cases were noticed. The above amount is only indicative based on the findings of inspection reports of audit conducted during 2009-10 and not exhaustive. Thus, the State's Revenue Receipt position could have been improved to that extent had the amount due to evasion of taxes/ short levy etc. been realized.

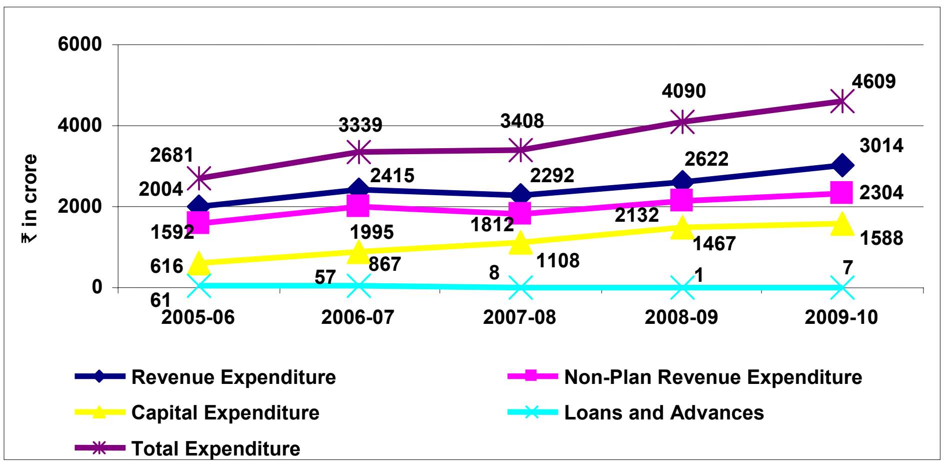
1.6 Application of resources

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

1.6.1 Growth and Composition of Expenditure

The chart below presents the trends in total expenditure over a period of five years (2005-10).

Chart 1.5: Trends in various components of Total Expenditure during 2005-10



The Compound Annual Growth Rate of Total Expenditure of the State between 2000-01 and 2008-09 was 15.72 *per cent* and was much higher than that of NE states (11.80 *per cent*).

During 2009-10 the total expenditure increased by ₹ 519 crore (13 *per cent*) from the previous year. The increase was mainly due to Revenue expenditure (₹ 392 crore) followed by Capital expenditure (₹ 121 crore). There was also an increase of expenditure of ₹ 6 crore under Loans and Advances.

The increase in Revenue expenditure (₹ 392 crore) was mainly due to Compensation and assignments to local bodies (₹ 125.97 crore), Soil and water conservation (₹ 67.72 crore), Police (₹ 42 crore), Water supply and sanitation (₹ 41.15 crore) and General education (₹ 29.85 crore) partially offset by Power (₹ 20.65 crore).

The increase in Capital expenditure (₹ 121 crore) was mainly due to Power (₹ 187.90 crore), Roads and bridges (₹ 76.95 crore), Public works (₹ 48.08 crore) and Medical and Public Health (₹ 32.29 crore) partially offset by Major irrigation (₹ 60.61 crore), Transport services (₹ 54.16 crore), Village and small industries (₹ 54.16 crore) and Water supply and sanitation (₹ 46.01 crore).

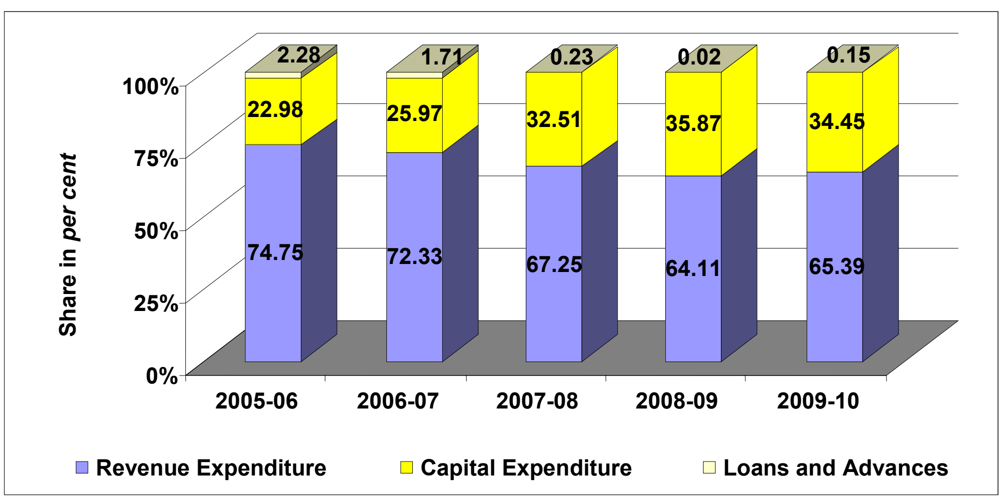
In the budget, the priority areas highlighted were Agriculture and Allied Activities, Rural development, ongoing irrigation projects, power supply and road communication. Although there was an increase of expenditure of ₹ 86.38 crore under Agriculture and Allied Activities under Revenue accounts, the expenditure under Capital accounts decreased by ₹ 22.40 crore. An amount of ₹ 108.15 crore was spent under State plan capital accounts for two of the three ongoing irrigation projects *viz.,* Thoubal (₹ 66.38 crore) and Dolaithabi (₹ 37.26 crore) Irrigation Projects. Substantial increase of expenditure of ₹ 163.92 crore (166 *per cent* increase) for power transmission and distribution was made during 2009-10 while there was an increase of ₹ 12.76 crore for Rural Electrification. An increase of ₹ 76.95 crore under Capital accounts on Roads and Bridges meant that the priority made on road communication was also met. The Government, however, fell short of fulfilling the commitment made on Rural development as expenditure on it decreased by ₹ 16.26 crore under Revenue account while no expenditure was spent under capital account.

A comparative study of expenditure in terms of Revenue, Capital and Loans and Advances reveals that since 2005-06 the State's resources allocation to Capital expenditure has been increasing steadily. The analysis also reveals that expenditure on Loans and Advances has been curtailed drastically since 2006-07. The expenditure pattern of the last five years (2005-10) commensurate with the disclosures made by the Chief Minister in the budget that Capital expenditure is on a growth path.

The Compound Annual Growth Rate of Capital Expenditure of the State between 2000-01 to 2008-09 was 33.26 *per cent* and was much higher than that of NE states (19.67 *per cent*).

Chart 1.6: Trend showing share of components of Total expenditure

(*In per cent*)



The composition of expenditure in terms of Plan and Non-plan expenditure is shown in the table below:

Table 1.14: Trends in composition of expenditure in terms of Plan and Non-plan

(₹ in crore)

Types of Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
NON-PLAN					
Revenue	1592	1195	1812	2132	2305
Capital	--	2	(-) 2	3	(-) 0.79
Sub-total	***1592 (61)***	***1997 (61)***	***1810 (53)***	***2135 (52)***	***2304 (50)***
PLAN					
Revenue	412	420	480	490	710
Capital	616	865	1110	1464	1588
Sub-total	***1028 (39)***	***1285 (39)***	***1590 (47)***	***1954 (48)***	***2298 (50)***
TOTAL (Non-Plan and Plan)					
Revenue	1592	1997	1810	2135	3015
Capital	1028	1285	1590	1954	1587
Grand Total	**2620**	**3282**	**3400**	**4089**	**4602**

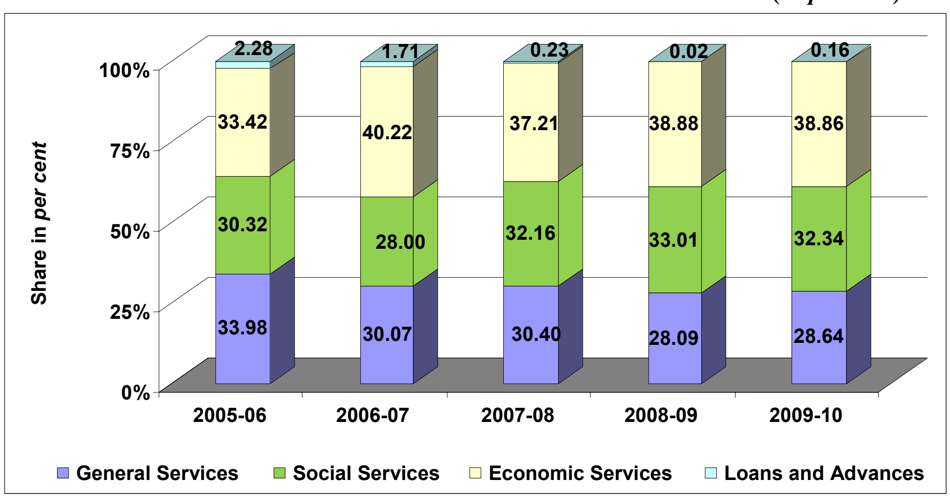
* Figures in bracket represent percentage with respect to Total Expenditure

The table discloses that Non-plan expenditure was reduced from 61 *per cent* from 2005-06 to 50 *per cent* in 2009-10, with corresponding increase in Plan expenditure from 39 *per cent* in 2005-06 to 50 *per cent* in 2009-10. The increase in Plan expenditure was mainly due to expenditure in Capital accounts. The Plan capital expenditure as percentage of Plan expenditure increased from 60 *per cent* in 2005-06 to 69 *per cent* in 2009-10.

The trend in composition of total expenditure by activities is shown in the chart given below:

Chart 1.7: Trends in composition of Total Expenditure by activities during 2005-10

(*In per cent*)



The chart reveals that expenditure on General services and Loans and advances has a decreasing trend while expenditure on Social services and Economic services increased steadily during 2005-10, indicating that expenditure pattern was orienting more towards development activities. The analysis is in tune to the statement made in the budget that contrary to the past trends, development expenditure is steadily increasing.

Revenue expenditure is incurred to maintain the current level of services and payment for past obligation and as such does not result in any addition to State's infrastructure and service network. A comparison of Non-plan revenue expenditure (NPRE) *vis-à-vis* assessment made by TFC/FCP/MTFPS/Budget estimates reveals that although NPRE could not be contained within the projections of TFC/FCP, it was confined within the limits of MTFPS/Budget estimates as shown below:

(₹ in crore)

	TFC	FCP	MTFPS	Budget	Actual
NPRE	1819.30	2058.45	2456.13	2456.13	2304.51

NPRE increased by ₹ 172.28 crore from ₹ 2132.23 crore in 2008-09 to ₹ 2304.51 crore during 2009-10. The increase was mainly due to increase in Water Supply and Sanitation (₹ 41.19 crore), Police (₹ 34 crore), Pension and others (₹ 25.73 crore), Roads and Bridges (₹ 14.69 crore) and Appropriation to reduction of debt (₹ 9.66 crore).

Although the percentage of Revenue expenditure (RE) as percentage of total expenditure remained in the range of 64 to 75 *per cent*, the contribution of NPRE to RE climbed down to 76 *per cent* in 2009-10 from 81 *per cent* in the previous year. Thus, the Government could achieve the budget commitment to emphasis on reduction of NPRE.

Revenue expenditure on some of the components in Social and Economic Sectors as provided by the TFC *vis-à-vis* actual for 2009-10 and TFC award period 2005-10 are given below:

Table 1.15: Component of expenditure recommended by TFC *vis-à-vis* actual during award period 2005-10

(₹ in crore)

Name of component	Recommended by TFC		Actual	
	2009-10	2005-10	2009-10	2005-10
Food Subsidies	2.39	11.95	0.1	0.14
General Education	402.42	1691.97	416.47	1914.37
Medical, Public Health and Family Welfare	91.46	372.22	126.64	472.63
Maintenance expenditure for Major and Medium Irrigation *	22.95	104.31	29.37	103.73
Maintenance expenditure for Minor Irrigation *	8.36	38.01	6.06	29.79
Maintenance expenditure for Roads and Bridges *	58.70	266.85	83.64	363.85
Maintenance expenditure for Buildings	40.16	182.57	51.47	196.77

* In the absence of separate minor head for maintenance, figures under the respective major head of accounts have been taken as maintenance expenditure

The State Government could spend more than what was recommended by the TFC in respect of General Education, Medical, Public Health and Family Welfare and maintenance expenditure for Buildings. However, expenditure for food subsidy fell short of what was recommended in the award period. Comparison in respect of Maintenance expenditure for Major and Medium irrigation, Minor irrigation and Maintenance for Roads and Bridges could not be made as no amount was booked separately under maintenance expenditure.

1.6.2 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. The **table below** and **Chart 1.8** present the trends in the expenditure on these components during 2005-10.

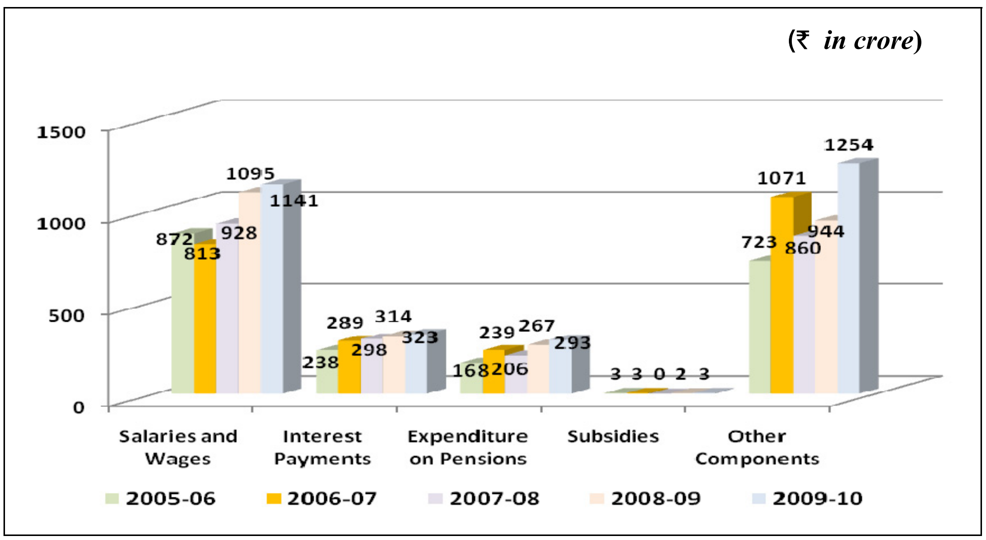
Table-1.16: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actual
Salaries & Wages , *of which*	872 (36.20)	813 (28.40)	928 (26.45)	1095 (28.27)	1370	1141 (29.46)
Non-Plan Head	*837*	*779*	*884*	*1041*	*1297*	*1077*
Plan Head	*35*	*34*	*44*	*54*	*73*	*64*
Interest Payments	238 (9.88)	289 (10.09)	298 (8.49)	314 (8.11)	338	323 (8.34)
Expenditure on Pensions	168 (6.97)	239 (8.35)	206 (5.87)	267 (6.89)	252	293 (7.56)
Subsidies	3 (0.12)	3 (0.01)	-	2 (0.05)	6	3 (0.08)
Other Components	723 (30.01)	1,071 (37.41)	860 (24.52)	944 (24.38)	1090	1254 (32.38)
Total	**2,004 (83.91)**	**2,415 (84.35)**	**2,292 (65.34)**	**2622 (67.71)**	**3056**	**3014 (77.82)**

Figures in the parentheses indicate percentage to Revenue Receipts

Chart 1.8: Trend of Committed expenditure for the years 2007-10



Salaries alone accounted for more than 29 *per cent* of Revenue Receipts of the State during 2009-10. As compared to increase of ₹ 167 crore in 2008-09, there was an increase of ₹ 46 crore only over the previous year in 2009-10.

Expenditure on salaries during 2009-10 exceeded the assessment of the State Government in its FCP (₹ 912.47 crore) by ₹ 229 crore but was lower by ₹ 226 crore against MTFPS projection (₹ 1367crore). The expenditure on *salaries was 47.57 per cent of the Revenue expenditure, net of interest payments and pension as against TFC norm and FRBM Act target of 35 per cent, requiring special attention of the Government to confine it within the limits set by them.*

The Compounded Annual Growth Rate of Salary and Wages of the State between 2003-04 to 2008-09 is 10.36 *per cent* and was much higher than that of NE states (7.26 *per cent*).

Pension payments alone accounted for nearly 8 *per cent* of Revenue receipts of the State during 2009-10 and increased by ₹ 26 crore (10 *per cent*) from ₹ 267 crore last year to ₹ 293 crore.

While the pension payment exceeded the assessment made by the Government in its FCP (₹ 285.98 crore) and MTFPS (₹ 251.78 crore), it was marginally less than the normative assessment of TFC (₹ 296.88 crore). Increase of ₹ 26 crore in pension payments during 2009-10 over the previous year was mainly due to increase in Family Pension (₹ 13.72 crore) and Leave encashment benefits (₹ 6.11 crore) partially offset by decrease on account of Pension to legislatures (₹ 3.67 crore).

The State Government has adopted the new Restructured Defined Contribution Pension Scheme of the GoI *mutatis mutandis* in respect of new entrants to the State's service with effect from 1 January 2005. The contribution of the State Government employees covered under the new scheme increased from a closing balance of ₹ 10.71 crore in 2008-09 to ₹ 17.60 crore in 2009-10. *However, the State Government had not contributed a matching share of the contribution of employees. Thus, the liability of the Government would be increased by ₹ 17.60 crore apart from interest accrued from the contribution.*

The Compounded Annual Growth Rate of pension payment between 2000-01 and 2008-2009 of Manipur was 9.73 *per cent* which was lower than the average of NE States (11.03 *per cent*).

Interest payments alone accounted for nearly 8 *per cent* of the Revenue Receipts during 2009-10 and increased by ₹ 9 crore (3 *per cent*) from ₹ 314 crore last year to ₹ 323 crore. The interest payment exceeded the assessment made by the State Government in its FCP (₹ 309.95 crore) and MTFPS (₹ 337.62 crore) but was less than the normative assessment of TFC (₹ 429.31 crore). Increase of ₹ 9 crore was mainly due to Interest on Internal debt (₹ 29.70 crore) partially offset by decrease in repayment of interest on Loans and Advances from Central Government (₹ 21.50 crore).

The Compounded Annual Growth rate of Interest Payment for Manipur between 2000-01 and 2008-2009 is 10.11 *per cent* which was substantially higher than average NE State (7.51 *per cent*); indicating that the State's economy was comparatively more stressed due to past liabilities.

1.6.3 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 the table below:

Table 1.17: 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 *etc.*)	75.71	40.20	40.50	29.75	31.88	32.04
Municipal Corporations and Municipalities	1.84	0.87	1.93	19.90	2.19	3.60
Other Institutions	1.03	1.25	0.84	1.02	2.38	1.67
Total	**78.58**	**42.32**	**43.27**	**50.67**	**36.45**	**37.31**
Assistance as percentage of RE	3.92	1.75	1.89	1.93	1.20	1.24

The total assistance provided during 2009-10 was almost equal to the estimates made in the budget. As compared to last year, the total assistance decreased by ₹ 13.36 crore in 2009-10. Financial assistance to universities and educational institutions alone constituted nearly 86 *per cent* of the total assistance of the State Government during 2009-10. Amongst education services, maximum assistance was given to Non-Government Primary Schools (₹ 18.62 crore).

1.7 Quality of Expenditure

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

1.7.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average. The table below analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2005-06 and 2009-10.

Table-1.18: Fiscal Priority and Fiscal capacity of the State during 2005-06 and 2009-10

Fiscal Priority by the State	AE/GSDP	DE#/AE	SSE/ AE	CE/AE	Education /AE	Health/ AE
All NE States Average (Ratio) 2005-06*	28.50	65.39	32.97	15.76	18.39	4.70
Manipur's Average (Ratio) 2005-06	46.85	65.98	30.32	22.98	15.74	3.10
All NE States Average (Ratio) 2009-10*	36.08	64.80	34.25	17.90	16.43	5.50
Manipur's Average (Ratio) 2009-10	53.06	69.26	31.47	34.45	12.19	4.49

* Excluding Mizoram

AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure.

Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

Source : For GSDP, the information was collected from the State's Directorate of Economics and Statistics (Manipur, Assam and Meghalaya as per new series 2004-05)

The above table shows the fiscal priority given by the Manipur Government to various expenditure heads in 2005-06 (the first year of the Twelfth Finance Commission Award Period) and the current year *viz*. 2009-10. The State had a much higher AE/GSDP in both years under consideration as compared to the average of NE states. Both DE/AE and CE/AE ratio were also higher than the NE states, indicating that the State was paying enough attention to Development Expenditure and Capital Expenditure. However, ratio of SSE/AE of the State was lower than the average of NE states. The State's expenditure pattern on Revenue expenditure on Education and Health within Social Service Sector was also lower than that of NE states. The Compounded Annual Growth Rates between 2000-01 to 2008-09 of Education (5.73 *per cent*) and Health (6.18 *per cent*) were substantially lower than that of NE states, which stood at 7.69 *per cent* and 11.29 *per cent* respectively.

1.7.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods[4]. Apart from improving the allocation towards development expenditure[5], the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of Revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.19** presents the trends in development expenditure relative to the aggregate

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

[5] 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.

expenditure of the State during the current year *vis-à-vis* budgeted and the previous years, **Table 1.20** provides the details of capital expenditure and the components of salary and wages Revenue expenditure of the selected social and economic services.

Table-1.19: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actual
Development Expenditure (a to c)						
a. Development Revenue Expenditure	1,281 (47.78)	1,542 (46.18)	1,360 (39.91)	1,528 (37.36)	1883	1707 (37.04)
b. Development Capital Expenditure	428 (15.96)	402 (12.04)	482 (14.14)	1,412 (34.52)	766	1485 (32.22)
c. Development Loans and Advances	60 (2.24)	52 (1.56)	4 (0.12)	1 (0.02)	7	7 (0.15)

Figures in parentheses indicate percentage to aggregate expenditure

Development Revenue Expenditure increased by ₹ 179 crore from ₹ 1528 crore last year to ₹ 1,707 crore during the current year. Though Development Capital Expenditure increased by ₹ 73 crore in 2009-10 over the previous year, its share to Aggregate expenditure decreased from 34.52 *per cent* to 32.22 *per cent* in 2009-10. The Development capital expenditure, however, was more than what was estimated in the budget. The above table also revealed that during 2005-10 development expenditure was orienting more towards capital accounts.

Percentages of Revenue and Capital expenditure to the Aggregate expenditure of the sector/sub-sector of some selected Social and Economic Services are shown in the table below:

Table 1.20 –Efficiency of Expenditure in Selected Social and Economic Services

(In *per cent*)

Social/Economic Infrastructure	2008-09		2009-10	
	Share of CE to TE	Share of S&W in RE	Share of CE to TE	Share of S&W in RE
Social Services (SS)				
General Education	13.09	77.08	7.66	75.22
Health and Family Welfare	30.75	85.83	38.72	74.78
WS, Sanitation, & HUD	82.12	36.18	73.94	26.23
Total (SS)	**40.50**	**61.14**	**38.55**	**57.19**
Economic Services (ES)				
Agriculture & Allied Activities	14.66	54.89	3.29	37.54
Irrigation and Flood Control	88.02	74.07	79.20	73.46
Power & Energy	37.25	25.25	64.21	20.19
Transport	81.29	34.81	79.24	26.89
Total (ES)	**54.41**	**35.33**	**53.15**	**31.91**
Total (SS+ES)	**48.02**	**48.90**	**46.52**	**45.11**

TE: Total Expenditure inclusive of loans and advances of each sector/sub-sector/head; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.

Share of Capital expenditure (CE) as ratio of Total expenditure (TE) in respect of General Education decreased from 13.09 to 7.66 *per cent* while in respect of Health and Family Welfare it increased from 30.75 to 38.72 *per cent*. The increase was mainly due to increase on account of Urban Health Services (₹ 29.20 crore). The share of CE under Water Supply, Sanitation and Housing and Urban Development decreased from 82.12 to 73.94 *per cent* due to decrease in Capital outlay on water supply and sanitation (₹ 46.01 crore) and Capital outlay on housing (₹ 36.11 crore) partially offset by increase in Capital outlay on urban development (₹ 37.21 crore).

As compared to ₹ 22.50 crore spent on Capital outlay on social and water conservation in Agriculture and Allied Activities in the previous year, no expenditure was made in 2009-10. As a result the share of CE climbed down from 14.66 *per cent* to 3.29 *per cent*. Due to decrease in Capital outlay on major irrigation (₹ 60.61 crore) and Medium irrigation (₹ 12.67 crore), the ratio of CE under Irrigation and Flood control decreased from 88.02 *per cent* to 79.20 *per cent* while increase from 37.25 *per cent* to 64.21 *per cent* under Power and Energy was due to increase in Transmission and distribution (₹ 163.92 crore). The share of CE under Transport decreased marginally as compared to 2008-09.

In all the selected services, share of salary and wages as percentage of Revenue expenditure have decreased as compared to 2008-09. However, with the impending implementation of 6th pay revision, there is a likelihood of increasing the expenditure under salary and wages in the coming years.

1.7.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

Performance reviews indicating the outlay-outcome relationship are *inter-alia* included in the State Audit Report. The effectiveness of the expenditure as brought out in performance review of National Rural Health Mission (NRHM) taken up during 2009-10 is as follows:

The National Rural Health Mission was launched in the State in November 2005. The review of NRHM revealed that the Department did not achieve the goal set for the health indicators *i.e.* Maternal Mortality Rate, Infant Mortality Rate, and Total Fertility Rate by March 2010. Planning process was inadequate as it was prepared without baseline survey inputs. As of March 2010, the State was yet to carry out a comprehensive household and facility survey to identify the gaps in health care facilities. Up-gradation of Community Health Centres, Primary Health Centres and Sub-Centres to the level of Indian Public Health Standards had not been achieved. While the percentage of fully immunised infants ranged from 69 and 81 *per cent* during 2005-06 and 2007-10, it exceeded the target during 2006-07. There was an absence of internal audit, evaluation, weakness in internal control and monitoring mechanism.

(Paragraph 1.3 of Audit Report 2009-10)

1.8 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its Fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.8.1 Incomplete projects

The department-wise information pertaining to incomplete projects of which the scheduled date of completion is already over as on 31 March 2010 is given in the table below:

Table 1.21: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Cumulative actual expenditure as on 31.03.2010	Cumulative Cost Over Runs
IFCD	7	14.76	22.37	7.61
Power	18	193.37	125.72	--
PWD	16	145.73	72.22	--
PHED	3	6.82	4.31	--
Total	**44**	**360.68**	**224.62**	**--**

As of 31 March 2010, there were 44 incomplete projects each costing ₹ 1 crore and above, involving total budgeted cost of ₹ 360.68 crore on which expenditure of ₹ 224.62 crore has already been incurred. Out of these 44 projects, three IFCD projects were taken up during the period 1988 to 1992 *viz.,* Wangjing river flood control project, Merakhong river flood control project and Nambul river flood control project. The above list is only indicative and not exhaustive and does not include projects for which the targeted dates of completion have been revised. The following pictures represent few of the projects lying incomplete as of March 2010:

A pucca bridge over the Chakpi river (Estimated cost ₹ 1900 lakh) was to be constructed at Serou. The RCC bridge which was started on February 2008 has not been completed as on March 2010 despite spending ₹ 1800 lakh.	**Improvement of Moirang Sendra road (Estimated cost ₹ 396.42 lakh) for a length of 2.14 km started on September 2008 was scheduled to be completed by March 2010. Despite spending ₹ 396.36 lakh, widening of the road to four lane has not been completed as of March 2010.**

Delay in completion of works invites the risk of escalation in cost of the works besides depriving the beneficiaries the benefits of the projects. Except for the IFCD projects, the incomplete projects have not yet incurred (March 2010) the initial budgeted cost, indicating slow progress of the works.

1.8.2 Investment and returns

As of 31 March 2010, Government had invested ₹ 176 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives. The average return on this investment was 0.02 *per cent* in the last five years while the Government paid an average interest rate of 7.47 *per cent* on its borrowings during 2005-10. Details are shown in the table below:

Table-1.22: Return on Investment

(₹ in crore)

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year	173	173	174	176	176
Return	*	-	0.05	-	-
Return *(per cent)*	-	-	0.03	-	-
Average rate of interest on Govt. borrowing *(per cent)*	6.81	7.14	6.84	6.69	6.22
Difference between interest rate and return *(per cent)*	6.81	7.14	6.81	6.69	6.22

* Only ₹ 2730

Investments as on 31 March 2010 were made in two statutory corporations, 15 Government companies and 45 types of co-operative banks and institutions. Major investments were made in Manipur State Road Transport Corporation (₹ 41.56 crore), Manipur Spinning Mills Corporation Ltd. (₹ 33.89 crore), Manipur Handloom and Handicrafts Development Corporation Ltd. (₹ 11.79 crore) and Manipur State Co-operative Bank Ltd. (₹ 21.99 crore). Of these, Manipur State Road Transport Corporation has been liquidated and Manipur Spinning Mills Corporation Ltd. is under liquidation process since June 2003. However, the liquidation of the company is yet to be completed as of November 2010, reason of which was not on record.

1.8.3 Loans and advances by State Government

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

Table-1.23: 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	193.11	198.78	199.20	199.20
Amount advanced during the year	7.97	1.08	8.60	6.89
Amount repaid during the year	2.29	0.66	3.00	3.28
Closing Balance	**198.79**	**199.20**	**204.80**	**202.81**
Of which Outstanding balance for which terms and conditions have been settled	NA	NA	NA	NA
Net addition	5.68	0.41	5.60	3.61
Interest Receipts	0.56	0.58	NA	2.23
Interest receipts as *per cent* to outstanding Loans and Advances	0.28	0.29	NA	1.10
Interest payments as *per cent* to outstanding Fiscal liabilities of the State Government	6.84	6.46	NA	5.84
Difference between interest payments and interest receipts (*per cent*)	6.56	6.17	NA	4.74

No budget provision for interest receipts on loans advanced was available in the Budget documents.

Total amount of outstanding loans and advances as on 31 March 2010 was ₹ 199.20 crore. Interest received against these loans and advances improved substantially from ₹ 0.58 crore in the previous year to ₹ 2.23 crore in 2009-10. Against repayment of ₹ 3.28 crore, an amount of ₹ 6.89 crore was advanced during 2009-10. Major recipients of loans were for social security and welfare (₹ 129.35 crore), village and small industries (₹ 19.26 crore), Housing (₹ 18.13 crore) and Co-operation (₹ 14.06 crore).

1.8.4 Cash Balances and Investment of Cash balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatch in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances from RBI has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three years average of Revenue receipts and the operative limit for Special Ways and Means

Advances is fixed by the RBI from time to time depending on the holding of Government securities. The limit for Normal Ways and Means Advances has been fixed at ₹ 60 crore while the limit of Special Ways and Means Advances is revised by the RBI from time to time.

The position of Ways and Means Advances and Overdraft is shown in the table below:

Table 1.24: Ways and Means Advances and Overdrafts

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Ways and Means Advance					
Availed in the year	90.90	—	38.79	—	—
Outstanding WMAs	—	—	-	—	—
Interest paid	2.51	—	0.03	—	—
Number of days	127	—	7	—	—
Overdraft					
Availed in the year	6,520.20	—	—	—	—
Number of days	44	—	—	—	—
Interest paid	1.99	—	—	—	—

The State did not avail of any overdraft facility since 2006-07 and during the last four years (2006-10) ways and means advances was taken only in 2007-08.

The table below depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.25: Cash Balances and Investment of Cash balances

(₹ in crore)

Particulars	As on 31 March 2009	As on 31 March 2010	Increase(+)/ Decrease(-)
Cash Balances	616.05	367.40	(-)248.65
Investments from Cash Balances (a to d)	840.89	590.80	(-)250.09
a. GoI Treasury Bills	*838.46*	*588.37*	*(-)250.09*
b. GoI Securities	-		-
c. Other Securities (Long term Investment)	*2.43*	*2.43*	-
d. Other Investments	-		-
Funds-wise Break-up of Investment from Earmarked balances (a to b)	13.66	33.98	(+)20.31
a. Sinking Fund	*12.66*	*30.98*	*(+)18.32*
b. Guarantee Redemption Fund	*1.00*	*3.00*	*(+)2.00*
Interest Realized	39.41	30.49	(-)8.92

The State Government has invested ₹ 590.80 crore in the GoI Treasury Bills and Long term Investment and earned ₹ 30.49 crore during 2009-10. Further, the Government invested ₹ 33.98 crore in Reserve Funds during 2009-10. The interest receipts against investment on cash balance was 5.16 *per cent* while the Government paid interest of ₹ 323 crore at an average rate of interest of 6.22 *per cent.*

1.9 Assets and Liabilities

1.9.1 Growth and composition of Assets and Liabilities

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

The FRBM Act of the State has defined the total liabilities as *"Total liabilities means the sum of the liabilities under the Consolidated Fund of the State, and the Public Account of the State and also include borrowings by the public sector undertakings and special purpose vehicles and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State budget".*

1.9.2 Fiscal Liabilities

The trends in outstanding Fiscal liabilities of the State are presented in **Appendix 1.5.** The composition of Fiscal liabilities during the current year *vis-à-vis* the previous year are presented in **Charts 1.9** and **1.10.**

Chart 1.9: Composition of outstanding Fiscal Liabilities as on 31 March 2009 (Rupees in crore)

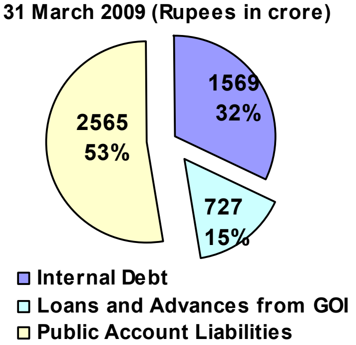
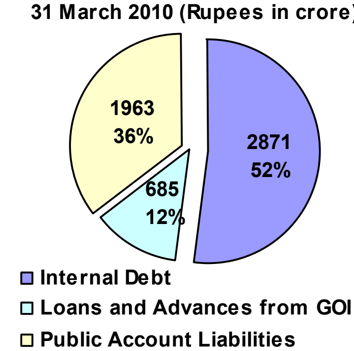


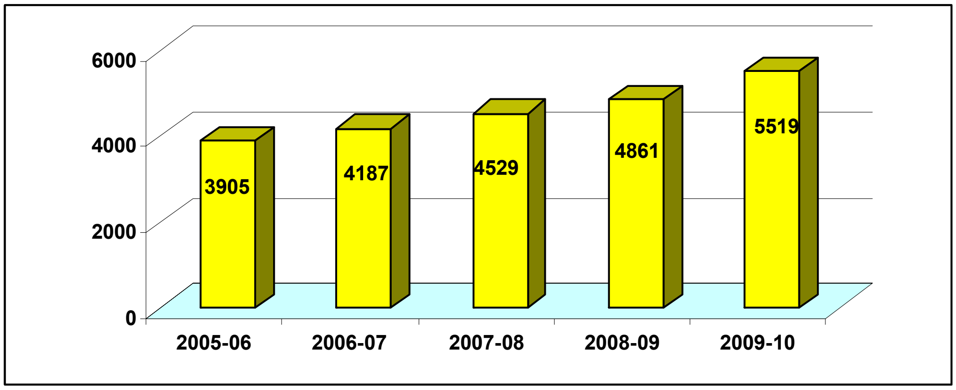
Chart 1.10: Composition of outstanding Fiscal Liabilities as on 31 March 2010 (Rupees in crore)



The overall Fiscal liabilities of the State Government increased by ₹ 658 crore from ₹ 4861 crore in 2008-09 to ₹ 5519 crore in 2009-10. The ratio of Fiscal liabilities to GSDP during 2005-10 remained above 60 *per cent*. As per para 24 of the 13th Finance Commission recommendations, Fiscal Liabilities should be limited to 25 *per cent* of GSDP by 2014-15. Thus, there is an urgent need for the State Government to re-look at its borrowings and repayment patterns and to ensure that the increasing trend of Capital Expenditure materialize into concrete asset creation to enable a faster growth of GSDP and ensure better repayment capacity. The increasing position of Fiscal liabilities during 2005-10 is depicted in the bar chart below:

Chart 1.11: Trend showing Fiscal Liabilities during 2005-10

(₹ in crore)



The increase in Fiscal liabilities was mainly due to increase in Internal debt (₹1302 crore) offset by decrease in Public Account liabilities (₹602 crore) and Loans and Advances from GoI (₹42 crore). The substantial increase in Internal debt has resulted in its contribution in the Fiscal liabilities from 32 per cent in the previous year to 52 per cent in 2009-10. Increase in Internal debt was mainly due to two market loans of ₹188.78 crore @ 8.18 per cent and ₹314 crore @ 8.49 per cent. The Fiscal liabilities during the current year exceeded by ₹755 crore than the assessed figure of ₹4764 crore in the MTFPS.

The State Government had set up (February 2008) a Consolidated Sinking Fund for amortization of market borrowings, other loans and debt obligations, as per the recommendation of the TFC, and transferred an amount of ₹ 18.32 crore in 2009-10. The closing balance of the fund at the close of the year was ₹ 30.98 crore. As compared to rate of increase of Fiscal liabilities, the corpus of the fund will not be able to cushion much of the liabilities; should a situation of redemption of loans arise.

1.9.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per FRBM Act and the Manipur Ceiling on State Government Guarantee Act, 2004, the total outstanding guarantees as of 1 April of any year shall not exceed thrice the State's Own Tax Revenue Receipts of the second preceding year.

The maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in the table below:

Table-1.26: Guarantees given by the Government of Manipur

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10
Maximum amount guaranteed	207	197	197
Outstanding amount of guarantees	211	274	195
Percentage of maximum amount guaranteed to Total revenue receipts	5.90	5.09	5.09

The outstanding guarantee of ₹ 195 crore was kept within the limit of the FRBM Act *ibid*. No additional guarantee has been given by the State Government in respect of loans raised by Statutory Corporations, Local bodies and other institutions during 2009-10. The principal beneficiaries of outstanding loans were Planning and Development Authority (₹ 121.02 crore), Manipur Tribal Development Corporation Limited (₹ 19.02 crore) and Khadi and Village Industries (₹ 12.12 crore). In respect of Manipur Tribal Development Corporation Limited, the Interest (₹ 11.73 crore) has exceeded the Principal amount (₹ 7.29 crore).

The State Government had set up (February 2008) a guarantee redemption fund to meet the contingent liabilities arising from such guarantees, as per the recommendation of the TFC and transferred an amount of ₹ 2 crore during 2009-10. The closing balance of the fund at the close of the year was ₹ 3 crore.

1.9.4 Off - Budget Borrowings

The State Government has not reported (November 2010) any off-budget borrowings during 2009-10.

1.10 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability[6] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[7]; sufficiency of non-debt receipts[8]; net availability

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

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

[8] 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.

of borrowed funds[9]; burden of interest payments (measured by interest payments to Revenue receipts ratio) and maturity profile of State Government securities. The table below analyzes the debt sustainability of the State according to these indicators during 2005-10.

Table 1.27: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	92	(-) 250	397	303	(-) 57
Sufficiency of Non-debt Receipts (Resource Gap)	177	(-) 204	(+) 577	(-) 318	(-) 517
Net Availability of Borrowed Funds	586	(-) 7	42	32	336
Burden of Interest Payments (IP/RR Ratio)	9.88	10.09	8.49	8.11	8.33
Maturity profile of State debt (in years)					
0 - 1	--	--	--	56.45	27.21
1 - 3	--	--	--	86.60	126.44
3 - 5	--	--	--	164.48	142.98
5 – 7	--	--	--	280.16	404.82
7 – 9	--	--	--	476.94	596.08
9 -11	--	--	--	466.08	608.53
11 - 19	--	--	--	718.66	717.88
Miscellaneous*	--	--	--	45.82	974.24
Total	**--**	**--**	**--**	**2,295.19**	**3598.14**

* Year of maturity not known.

The poor performance of Revenue collection and the increase in the quantum of expenditure in 2009-10 had an adverse impact in the debt scenario of the economy of the State and had resulted in a Primary deficit (₹ 410 crore) which was higher than the Quantum spread (₹ 352 crore). As a result, the debt stabilization indicator suggests rising of debt *vis-à-vis* the GSDP of the State. The debt scenario as viewed from the availability of resource was also discouraging.

The incremental Aggregate expenditure (₹ 519 crore) far exceeded the Non-debt receipt (₹ 2 crore) during 2009-10, increasing the resource gap further to ₹ 517 crore in the current year from ₹ 318 crore during 2008-09.

During 2009-10 against Debt receipt of ₹ 1545 crore, Debt redemption and Interest payment was ₹ 1209 crore, leaving borrowed funds of ₹ 336 crore only for purposes other than debt redemption. Thus, 78 *per cent* of the borrowed fund was being utilized to service the past liabilities of the State. Though Interest payment as ratio of the Revenue receipt remained stabilized at around eight *per cent*, the borrowing of the State needs to be re-looked in view of the rising maturity profile of debt; otherwise the State's future borrowings would have to be channelized to service past liabilities only.

[9] Difference between Debt receipt and debt redemption (Principal +Interest payments)

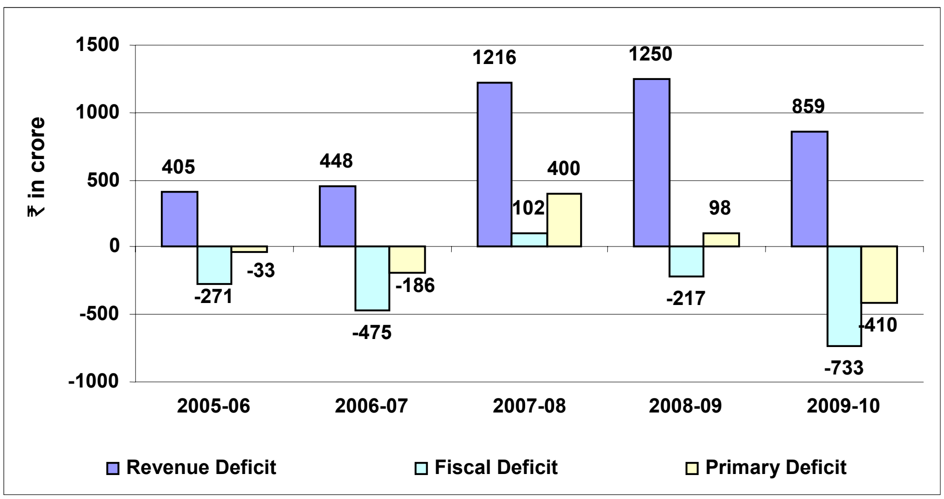
1.11 Fiscal Imbalances

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 trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and Fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2009-10.

1.11.1 Trends in Deficits

The chart below presents the trends in deficit indicators over the period 2005-10:

Chart 1.12 : Trends in Deficit Indicators



The trend of continual increase of Revenue surplus during 2005-09 has reversed in the current year and has come down to ₹ 859 crore from ₹ 1250 crore in 2008-09. This was mainly due to increase in Revenue expenditure while Revenue receipt remained stagnant at the previous year's figure. Increase in Capital expenditure further increased Fiscal deficit from ₹ 217 crore to ₹ 733 crore in the current year. The Primary surplus of previous year also reversed to a deficit of ₹ 410 crore during 2009-10, which meant that the State's receipts was not able to meet the quantum of expenditure of the current year. The deteriorating position of the surplus/deficit, the increasing resource gap and the increasing trend of repayment profile of debt in coming years is an indicator that the State's economy may face a debt trap unless Capital expenditure is able to increase the State's GSDP and have a corresponding impact on the Revenue receipts of the State.

1.11.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the Fiscal deficit is reflected in the table below:

Table 1.28: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

	Particulars	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit		**(-)475**	**(+)102**	**(-)217**	**(-) 733**
1	*Revenue Surplus*	*448*	*1216*	*1250*	*859*
2	*Net Capital Expenditure*	*(-) 867*	*(-) 1108*	*(-) 1467*	*(-) 1588*
3	*Net Loans and Advances*	*(-) 56*	*(-) 6*	*(-) 0.42*	*(-) 3.61*
Financing Pattern of Fiscal Deficit*					
1	Market Borrowings	224.25	192.73	248.79	445
2	Loans from the GoI	(-)238.97	(-)236.71	(-)239.96	(-) 41.97
3	Special Securities Issued to NSSF	229.53	199.92	199.46	(-) 2.67
4	Loans from Financial Institutions	(-)4.47	(-)2.74	(-)4.08	2.77
5	Small Savings, PF *etc.*	62.97	52.41	52.32	24.94
6	Deposits and Advances	16.01	132.78	83.72	226
7	Suspense	(-)79.58	27.64	(-)4.78	(-) 34.34
8	Remittances	197.58	111.13	(-)48.16	(-) 160.23
9	Reserve Fund	(-)7.19	3.88	5.40	24.52
Increase/decrease in cash balance with RBI		(-)535.73	(-) 156.40	36.36	28.50

*All these figures are net of additions and discharges during the year

As can be seen from the above table, Fiscal deficit of 2006-10 was mainly due to quantum of Capital expenditure. To finance this gap, the State Government relied more on Market borrowings and reduced the dependency from the Central Government. During 2009-10, borrowings from Small Savings, Provident Funds *etc*. increased from ₹ 52.32 crore in 2008-09 to ₹ 24.94 crore in the current year.

1.11.3 Quality of Deficit/Surplus

The **table below** indicates the extent to which the deficit/surplus has been on account of enhancement in Capital expenditure which may be desirable to improve the productive capacity of the State's economy:

Table 1.29: Primary deficit/surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue surplus	Primary deficit (-)/ surplus (+)
1	**2**	**3**	**4**	**5**	**6 (3+4+5)**	**7 (2-3)**	**8 (2-6)**
2005-06	2,410	1,766	616	61	2,443	644	(-)33
2006-07	2,864	2,126	867	57	3,050	738	(-)186
2007-08	3,510	1,994	1,108	8	3,110	1,516	(+)400
2008-09	3,874	2,308	1,467	1	3,776	1,566	(+)98
2009-10	3,876	2,692	1,588	7	4,287	1,184	(-)410

The Non-debt receipts of the State during 2005-10 were sufficient to meet the Primary revenue expenditure. The steady growth of Non-debt receipt experienced by the State during 2005-09 could not be achieved in 2009-10 mainly due to less receipt of Grants-in-aid from the Central Government.

However, Primary expenditure increased by ₹ 511 crore (14 *per cent*) from ₹ 3776 crore in 2008-09 to ₹ 4287 crore in the current year. Capital expenditure as percentage of Primary expenditure increased from 25 *per cent* in 2005-06 to 37 *per cent* in 2009-10, indicating that there was a steady shift of expenditure on Capital account. However, there appears to be a slow-down at the rate growth of Capital expenditure in 2009-10 as compared to Primary revenue expenditure. Due to stagnation of Non-debt receipt and growth in Primary expenditure, the Primary surplus experienced in the last two previous years could not be maintained and there was a deficit of ₹ 410 crore in 2009-10, which was the highest Primary deficit during 2005-10.

1.12 Conclusion and recommendations

The fiscal position of the State viewed in terms of key parameters – Revenue surplus, Fiscal deficit, Primary deficit *etc*. revealed that the State could maintain Revenue surplus throughout the Twelfth Finance Commission award period of 2005-10.

Revenue Receipts

During 2005-10, around 89 to 92 *per cent* of the Revenue receipt of the State came from the Central Government. The Revenue receipt in 2009-10 remained at the same amount of ₹ 3873 crore of 2008-09, mainly due to less devolution of Grants-in-Aid from the Central Government. As a result, there were incipient signs of financial stress to the economy of the State (Para 1.4). The Non-tax revenue collection under Power, Water Supply and Sanitation and Irrigation as percentage of their respective Non-plan revenue expenditure during 2008-09 and 2009-10 gave fluctuating figures, indicating that revenue collection for providing these services was not reliable. The cost of revenue collection of Sales tax/VAT *etc*. and Taxes on vehicles of the State was much higher than the corresponding figures of All India average. An amount of ₹ 102.58 crore due to non/short levy (including penalty) of Sales tax/VAT, and professional tax, loss of revenue (energy charges) and non-realization of registration fee in 67 cases was also noticed during 2009-10 (Para 1.5).

Grants-in-aid decreased from ₹ 2868 crore in 2008-09 to ₹ 2840 crore in 2009-10. This had an adverse impact on the Revenue receipt of the State and was the main factor of its stagnation. The **Share of Union Taxes/Duties** also increased marginally from ₹ 581 crore in 2008-09 to ₹ 598 crore in 2009-10. The **Tax revenue** increased by ₹ 25.97 crore (15 *per cent*) from ₹ 170.07 crore in 2008-09 to ₹ 196.04 crore in 2009-10, mainly due to increase in Sales Tax (₹ 21.90 crore). As in the previous years, Sales tax (₹ 163.28 crore) remained the major contributor of Tax revenue and accounted for 83 *per cent* of the tax. The **Non-tax revenue** declined by ₹ 13.71 crore (5 *per cent*) from ₹ 253.46 crore in 2008-09 to ₹ 239.75 crore in 2009-10, mainly due to Miscellaneous General Services (₹ 31.30 crore) and Interest Receipts of State Government (₹ 7.27 crore) offset by increase under Power (₹ 15.78 crore) and Public Works (₹ 9.69 crore) (Para 1.5).

Though the State's own tax collection was more than its own projection of FCP/MTFPS/Budget estimates, it was lower than the normative assessment of

Twelfth Finance Commission (TFC). Collection from own Non-Tax revenue (ONTR) was higher than such projections/assessments (Para 1.5).

In view of the deteriorating fiscal position of the State and mounting Fiscal Liabilities, the State Government should consider to take steps to mobilize additional resources both through tax and non-tax sources by expanding the tax base and rationalizing the user charges. Efforts should also be made to increase tax compliance, reduce tax administration costs, and collect revenue arrears *etc.* so that sustainability of debt does not go out of control. Timely action on all conditionalities that are pre-requisites to release of funds and timely utilization of central funds would aid in increase of the total receipts of the State.

Expenditure status

During 2005-10, expenditure on capital accounts had increased significantly from ₹ 616 crore to ₹ 1588 crore, though as compared to previous years, there was a slower growth of capital expenditure in 2009-10. The State Government could fulfil most of the priority areas of capital expenditure highlighted in the budget. There was a healthy growth of Plan expenditure from 39 *per cent* in 2005-06 to 50 *per cent* in 2009-10. A similar trend was also noticed in terms of expenditure pattern by activities, and was orienting more towards developmental activities of Social Services and Economic Services. As per recommendations of TFC and FRBM Act target, the expenditure on salaries was to be confined at 35 *per cent* of Revenue expenditure, net of interest payment and pension. Against this, the expenditure in 2009-10 stood at 48 *per cent.* Non-plan Revenue Expenditure (NPRE) during 2009-10 exceeded the normative assessment of Twelfth Finance Commission projections of Fiscal Correction Path but was lower than the projection of Medium Term Fiscal Policy Statement. Although the State Government lived up to its budget commitment for reduction of NPRE by confining NPRE at 76 *per cent* of Revenue Expenditure in the current year from 81 *per cent* in the previous year, further NPRE needs utmost attention of State Government, especially in the worsening Fiscal deficit and re-occurrence of primary deficit in the current year and the fact that debt-sustainability indicators are showing discouraging results (Para 1.6).

The holistic picture of key criterion of expenditure pattern during 2005-10 reveals a positive note. The budget commitments of 2009-10 were also largely fulfilled. However, increase of expenditure under capital head will not necessarily materialize into actual asset creation unless projects/schemes are completed on time, or else valuable resources will remain locked up without any tangible gain to the beneficiaries. A coherent effort is required to select projects that are nearing completion so as to channelise more resources to these projects rather than spread out resources thinly. A monitoring mechanism to focus on timely completion of projects should be in place.

Fiscal position, Fiscal liabilities and sustainability of debt

During 2009-10 due to less devolution of Grants-in-aid from the Central Government and lesser Non-tax revenue, the Revenue surplus fell by ₹ 391 crore in 2009-10, and as a consequence and coupled with increase in expenditure in both revenue and capital accounts, Fiscal deficit in the current year increased more than three folds and stood at ₹ 733 crore from ₹ 217 crore in the previous year. The primary surplus of the previous two years also turned into a deficit of ₹ 410 crore, the highest during the last five years (Para 1.11).

The overall Fiscal liabilities of the State Government increased by ₹ 658 crore from ₹ 4861 crore in 2008-09 to ₹ 5519 crore in 2009-10 and exceeded the assessed figure of ₹ 4764 crore in the MTFPS. The increase was mainly due to two market loans of ₹ 188.78 crore and ₹ 314 crore. The ratio of Fiscal Liabilities to GSDP during 2005-10 remained above 60 *per cent;* much higher than the 13^{th} Finance Commission's recommendations to limit the ratio at 25 *per cent* by 2014-15 (Para 1.9). As growth of Fiscal liabilities and servicing of liabilities in the current year is more than the growth of revenue, there is a likelihood of pressure on sustainability of debt of the State. For two consecutive years (2008-10), the incremental primary expenditure exceeded the non-debt receipt, and had resulted in re-occurrence of Primary deficit and has led to increase of resource gap. The State's receipts also had poor capacity to service the debt as 78 *per cent* of the borrowed funds was being utilized to service past liabilities of the State. All these, with the rising maturing profile of debt in coming years are an indication that the State's economy may face the problem of non-manageable debt scenario (Paras 1.10 and 1.11).

Given the position of these key fiscal parameters, the fiscal position appears to be off track of fiscal correction path. Unless the State Government increases revenue collection and tax compliance, makes efforts for more devolution of funds from the Central Government, reduces tax collection costs, collects revenue arrears and prunes unproductive expenditure so that deficits are contained and also apply scare resources judiciously for timely completion of projects/schemes, the prospect of unmanageable fiscal situation cannot be ruled out.

The State should consider initiating steps on an urgent basis to make efforts to return to primary surplus as in previous years and continue to maintain revenue surplus. The State's flow of resources should keep up with the pace of expenditure obligation. In view of the rising maturity profile of debt, there is an urgent need to maintain a calendar of borrowings and monitor it very closely. Such mechanism may enable the State Government to resort to more need based borrowings at opportune times. The State may consider identifying a shelf of projects and chalk out a better synchronization of cash inflows and outflows as per its spending capacity so as to avoid unwarranted build-up of cash surplus. Unless measures are taken up to increase Revenue receipts, tighten unproductive expenditure, reduce its dependency on borrowed funds to service its debt and initiate a prudent debt management system, the State faces the prospect of imminent financial hardship.