CHAPTER I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

Jharkhand, the 28th State of the Indian Union was carved out of the southern part of Bihar State on 15 November 2000 in terms of the Bihar Re-organisation Bill 2000, with 18 districts. The State is known for its vast forest resources and is the leading producer of mineral wealth having 40 *per cent* of the country's mineral reserves. The State has higher poverty levels as compared to the all-India average as indicated in **Appendix-1.1.** Density of its population (338 persons per sq. Km.) as per the 2001 census was higher than the all-India density (325 persons per sq. Km.). The infant mortality rate of the State was 46 (per 1000 live births) which was lower than the all-India average of 53. The inequality of income distribution in the case of rural areas as well as urban areas of Jharkhand was less than the all-India average **Appendix-1.1.** The State has shown a relatively lower economic growth in the past decade as the compound annual growth rate (CAGR) of its Gross State Domestic Product (GSDP) for the period 2000-01 to 2009-10 has been 11.33 *per cent* as compared to 12.54 *per cent* in other General Category States. During this period, its population has grown by 14.59 *per cent* against 13.42 *per cent* in other General Category States.

The annual accounts of the State Government consist of Finance Accounts and Appropriation accounts. The Finance Accounts of the Government of Jharkhand are laid out in 19 Statements, the structure and layout of which are depicted in **Appendix-1.1 (A) and (B).**

This chapter provides a broad perspective of the finances of the Government of Jharkhand during the current year and analyses critical changes in the major fiscal aggregates in relation to the previous year, keeping in view the overall trends during the last five years. The methodology adopted for assessment of the fiscal position of the State is given in **Appendix 1.2.** Time series data on State Government finances is given in **Appendix 1.3.**

1.1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2009-10) *vis-a-vis* the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations.

(₹ *in crore*)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-A: Revenue					Non-plan	Plan	Total
13212.84	Revenue Receipts	15118.47	12876.90	Revenue expenditure	11369.96	3758.28	15128.24
3753.21	Tax revenue	4500.12	4923.99	General Services	6465.87	139.49	6605.36
1951.74	Non-tax revenue	2254.15	5385.18	Social Services	3403.24	2207.06	5610.30
5392.11	Share of Union Taxes/ Duties	5547.57	2532.48	Economic Services	1500.45	1411.93	2912.38
2115.78	Grants from Government of India	2816.63	35.25	Grants-in-aid and Contributions	0.20	-	0.20
Section-B: Capital							
	Misc. Capital Receipts		3051.27	Capital Outlay	21.00	2682.04	2703.04
18.90	Recoveries of Loans and Advances	21.79	418.19	Loans and Advances disbursed	27.93	292.05	319.98
2436.56	Public debt receipts *	3369.44	863.40	Repayment of Public Debt	-	-	1190.21
-	Transfers to Contingency Fund	-	-	Expenditure from Contingency Fund	-	-	-
8335.16	Public Account Receipts	8241.68	7185.19	Public Account Disbursements	-	-	7290.30
1174.88	Opening Cash Balance	637.52	145.87	Inter State Settlement	-	-	-
			637.52	Closing Cash Balance	-	-	757.13
25178.34	**Total**	**27388.90**	**25178.34**	**Total**			**27388.90**

(Source: Finance Accounts for the years 2008-09 and 2009-10).

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

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

- Revenue receipts of the State increased by ₹ 1906 crore (14 *per cent*) over the previous year. The increase was due to increase in tax revenue by ₹ 747 crore (20 *per cent*), non-tax receipts by ₹ 302 crore (15 *per cent*), State's share of Union taxes and duties by ₹ 155 crore (three *per cent*) and grants-in-aid by ₹ 701 crore (33 *per cent*).
- Against the normative assessment made by the Twelve Finance Commission (TFC) the tax revenue of the State was less by ₹ 417 crore (eight *per cent*), whereas, non-tax revenue was more by ₹ 495 (28 *per cent*).
- Revenue expenditure increased by ₹ 2251.34 crore (17 *per cent*) mainly due to increase in expenditure on General Services (₹ 1681 crore), Social Services (₹ 225 crore) and Economic Services (₹ 380 crore).
- Capital expenditure decreased by ₹ 348 crore (11 *per cent*) over the previous year.
- Recovery of loans and advances increased by ₹ three crore (16 *per cent*) and disbursement decreased by ₹ 98 crore (23 *per cent*) in 2009-10 over the previous year.
- Public Debt receipts and repayment increased by ₹ 933 crore (38 *per cent*) and ₹ 327 crore (38 *per cent*) respectively over the previous year.
- Public Account receipts decreased by ₹ 93 crore (one *per cent*) while disbursements increased by ₹ 105 crore (one *per cent*).

- The net impact of these transactions was an increase of ₹ 120 crore in the cash balance at the end of the year of the State over the previous year.

Review of the fiscal position

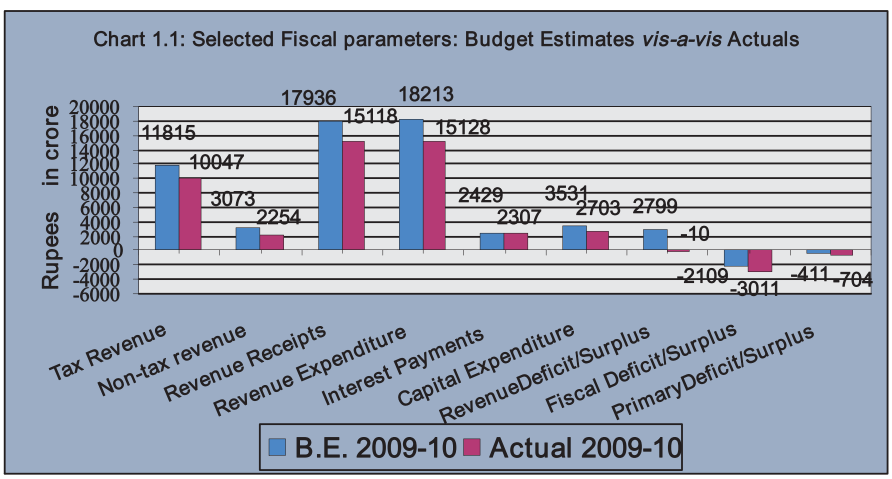
As per the Jharkhand Fiscal Responsibility and Budget Management (FRBM) Act, 2007, in line with the recommendation of the TFC, the State Government was to eliminate the revenue deficit by the end of March 2009 and reduce the fiscal deficit to not more than three *per cent* of the estimated Gross State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

The State had achieved the target set in the FRBM Act by eliminating the revenue deficit in 2006-07 by turning the deficit into a huge revenue surplus (₹ 946 crore), which further improved to ₹ 1195 crore in 2007-08. However, the surge in revenue expenditure *vis-a-vis* revenue receipts which started in 2008-09 continued and the fiscal situation of revenue surplus could not be retained during 2009-10 as there was revenue deficit of ₹10 crore.

Budget analysis

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

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



- Revenue receipts, revenue expenditure and capital expenditure were less than the budget estimates by ₹ 2818 crore (16 *per cent*) ₹ 3085 crore (17 *per cent*) and ₹ 828 crore (24 *per cent*) respectively.
- Against an estimated target of revenue surplus of ₹ 2799 crore set in the Fiscal

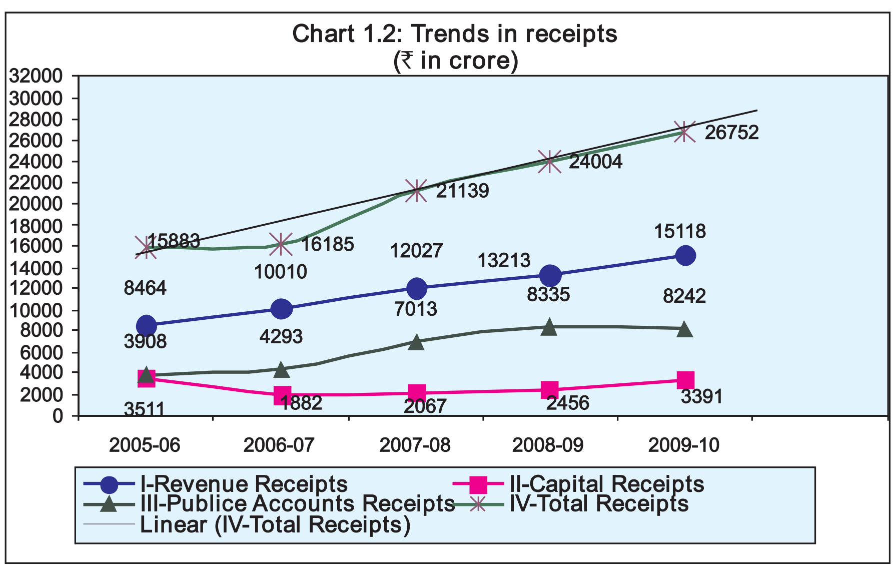
Correction Path (FCP) and revised in the Mid Term Fiscal Plan (MTFP) 2010-11 to ₹ 2614 crore, the financial year ended with a revenue deficit of ₹ 10 crore.

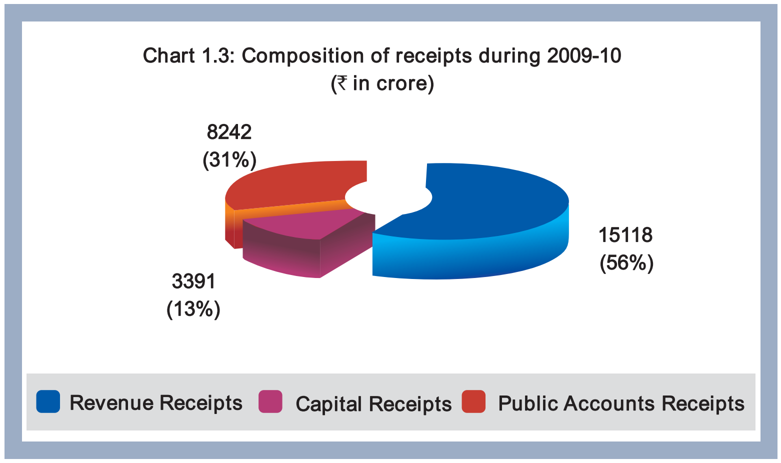
- The revenue deficit of the State stands understated due to expenditure of ₹ 226.84 crore on grants-in-aid classified under the 'capital section' instead of the 'revenue section' and overstated due to the expenditure of ₹ 54.48 crore on major works being classified under the 'revenue section' instead of the 'capital section'.
- The fiscal deficit (FD) and primary deficit (PD) increased by ₹ 902 crore (43 *per cent*) and ₹ 293 crore (71 *per cent*) respectively against the budget estimates.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

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





- The total receipts of the State increased from ₹ 15883 crore in 2005-06 to ₹ 26751 crore in 2009-10. The growth rate of total receipts decreased from 14 *per cent* (₹ 2865 crore) in 2008-09 to11 *per cent* (₹ 2748 crore) in 2009-10 due to decrease in public accounts receipts.
- Share of revenue receipts of the State to total receipts increased from 53 *per cent* in 2005-06 to 57 *per cent* in 2009-10. However, during 2006-07, it was at 62 *per cent.*
- The debt capital receipts (capital receipts minus recovery of loans and advances) increased from ₹ 2437 crore in 2008-09 to ₹ 3369 crore in 2009-10. Its growth rate was 38 *per cent* in 2009-10 in comparison to 20 *per cent* in the previous year.
- Public Account receipts increased steadily from ₹ 3908 crore (25 *per cent* of total receipts) in 2005-06 to ₹ 8242 crore (31 *per cent* of total receipts) in 2009-10.

1.2.2 Funds transferred to State implementing agencies outside the State budget

The Central Government has been transferring sizeable amounts of funds directly to State implementing agencies[1] for the implementation of various schemes/programmes in social and economic sectors recognised as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present a holistic picture on availability of aggregate resources, the funds directly transferred to State implementing agencies are presented in **Table 1.2**.

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

Table 1.2: Funds transferred directly to State Implementing Agencies

(₹ *in crore*)

Programme/scheme (indicate Centre: State share)	Implementing agency in the State	2008-09	2009-10
National Rural Employment Guarantee Act, Swarnjayanty Gram Swarojgar Yojana Indira Awas Yojana (New construction), Indira Awas Yojana (Upgradation), District Rural Development Agency (Administration)	District Rural Development Agency	256.92	1205.31
Member of Parliament Local Area Development	District Magistrates	10.50	37.50
Sarva Shiksha Abhiyan	Jharkhand Education Project Council	541.91	717.12
National Rural Health Mission	(i) Jharkhand Rural Health Mission Society, Leprosy Control Society, TB Control Society and Blind Control Society; (ii) Jharkhand States AIDS Control Society;	135.55	178.97
Schemes implemented by NGOs and other societies	NGOs and other Societies	153.65	523.74
Total		**1098.53**	**2662.64**

Source: Controller General of Accounts, Government of India. However, the data was not reconciled with the figures of implementing agencies.
Excluded ₹ 140.51 crore and ₹ 100.96 crore respectively released for the years 2008 -09 and 2009-10 to the organisations outside the purview of the Government of Jharkhand.

During 2009-10, ₹ 2662.64 crore was transferred directly to State implementing agencies to execute specific Central programmes in the State, out of which, a significant amount of ₹ 1205.31 crore and ₹ 717.12 crore was transferred to the District Rural Development Agencies and the Jharkhand Education Project Council respectively. Direct transfer of funds from the Union to State implementing agencies is fraught with the risk of improper utilisation. It would be difficult to monitor the end use of these direct transfers unless uniform accounting policies are followed by all these agencies with proper documentation and timely reporting of expenditure.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax revenue, non-tax revenues, central tax transfers and grants-in-aid contribution from GOI. The trends and composition of revenue receipts over the period 2005-10 are presented in **Appendix 1.3** and also depicted in **Charts 1.4** and **1.5** respectively.

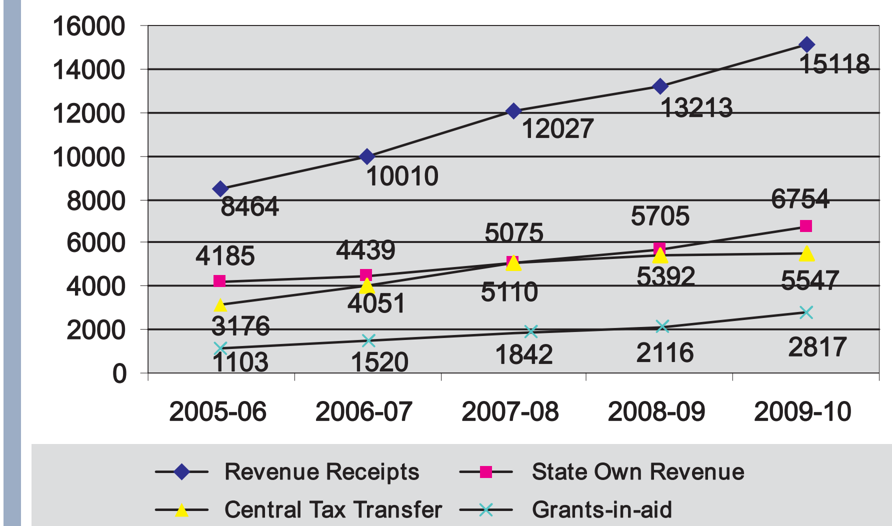


Chart 1.4: Trends in Revenue Receipts
(₹ in crore)

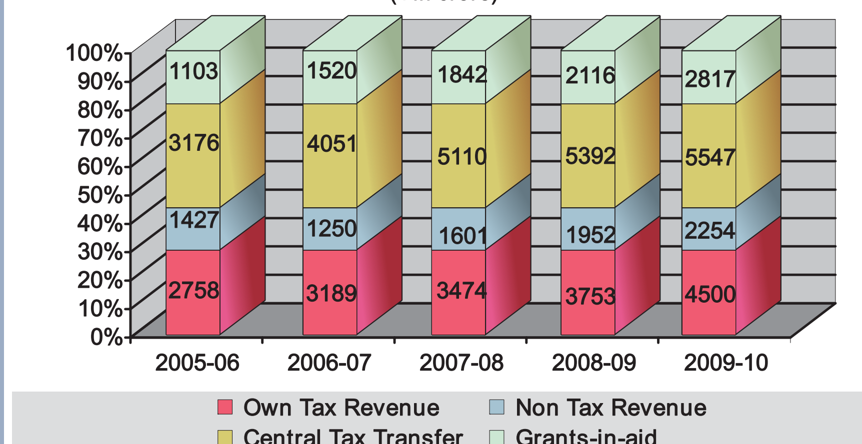


Chart 1.5: The composition of Revenue Receipts during 2005-10
(₹ in crore)

- The revenue receipts of the State steadily increased by 79 *per cent* from ₹ 8464 crore in 2005-06 to ₹ 15118 crore in 2009-10. However, the share of the State's own resources to total revenue receipts steadily declined from 49 *per cent* in 2005-06 to 45 *per cent* in 2009-10. On the other hand, the share of both Central tax transfers and grants-in-aid showed an increasing trend during 2005-10. On an average, while around 45 *per cent* of the revenue in 2009-10 came from the State's own resources, central tax transfers and grants-in-aid together contributed about 55 *per cent* of the total revenues.
- During the year the total revenue receipts (₹15118 crore) comprised State's own tax revenue ₹ 4500 crore (30 *per cent*), non-tax revenue ₹ 2254 crore (15 *per cent*), central tax transfer ₹ 5547 crore

(37 *per cent*) and grants-in-aid ₹ 2817 crore (19 *per cent*) with a growth rate of 20 *per cent*, 15 *per cent*, three *per cent* and 33 *per cent* respectively over the previous year.

- The growth rate of non-tax revenue and central taxes declined by seven *per cent* and three *per cent* respectively while the growth rate of grants-in-aid increased by 18 *per cent* over the previous year.
- The State received debt relief of ₹ 131.91 crore during 2008-09 and ₹ 104.96 crore during 2009-10 due to enactment of the FRBM Act (May 2007).

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

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (₹ in crore)	**8464**	**10010**	**12027**	**13213**	**15118**
Rate of growth of RR (*Per cent)*	27.1	18.3	20.1	9.9	14.4
R R/GSDP (*Per cent)*	15.4	15.8	17.4	17.5	18.2
Buoyancy Ratios[2]					
Revenue Buoyancy w.r.t GSDP	3.93	1.20	2.12	1.06	1.48
State's Own Tax Buoyancy w.r.t GSDP	2.26	1.03	0.94	0.86	2.05

- The growth rate of revenue receipts decreased significantly from 27.1 *per cent* in 2005-06 to 14.4 *per cent* in 2009-10. However, it showed improvement during 2009-10 (14.4 *per cent*) against the growth rate (9.9 *per cent*) in 2008-09.
- The revenue receipts increased from ₹13213 crore in 2008-09 to ₹15118 crore in 2009-10 with a growth rate of 10 *per cent* and 14 *per cent* respectively.
- Revenue buoyancy with respect to GSDP showed wide fluctuations ranging between 1.06 and 3.93 during 2005-10. In 2005-06, it was highest (3.93) due to very low growth of GSDP (6.9 *per cent*) during the year. In 2009-10, it slightly increased to 1.48 against 1.06 in 2008-09 due to high growth of revenue receipts.
- The State's own tax buoyancies showed wide variations between 0.86 and 2.26 during 2005-10, due to wide fluctuation in the growth rate of both GSDP and own tax revenue. However, it increased sharply to 2.05 in 2009-10 against 0.86 in 2008-09 due to a sharp increase in the growth rate of the States own tax revenue (20 *per cent*) in comparison to the growth rate of GSDP during the year.
- The growth rate of GSDP of the State recorded wide variation from 6.9 *per cent* to 15.2 *per cent* during 2005-10. Its growth rate decreased significantly from 15.2 *per cent* in 2006-07 to 9.5 *per cent* in 2007-08 and 9.3 *per cent* in 2008-09,

[2] 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.*

which slightly increased to 9.7 *per cent* during 2009-10.

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central- tax receipts and Central assistance for Plan schemes etc. the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

Tax Revenue

The tax revenue of the State increased consistently from ₹ 2758 crore in 2005-06 to ₹ 4500 crore in 2009-10, but its growth rate showed wide fluctuation between eight *per cent* to 20 *per cent* during 2005-10. Of the total tax revenue in 2009-10, sales tax contributed 80 *per cent* followed by State excise (seven *per cent*), taxes on vehicles (five *per cent*), stamp duty and registration (five *per cent*) and other taxes (three *per cent*).

During 2009-10, the collection of the States own tax revenue was ₹ 4500 crore against the Fiscal Correction Path (FCP) target of ₹ 6311 crore and the normative projection made by TFC of ₹ 4917 crore. The main reason for non-achievement of the FCP and TFC targets was lesser collection of sales tax than estimated (actual collection ₹ 3597 crore against budget estimate ₹ 6052 crore) during the year. The own tax to GSDP ratio was only 5.42 *per cent* against the Medium Term Fiscal Plan (MTFP) 2010-11 target of 7.40 *per cent* for the year 2009-10.

Table 1.4: Cost of collection of revenue

(₹ *in crore*)

Sl. No.	Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All-India average 2009-10
1	Taxes /VAT on sales, trade etc.	2008-09	2996.20	24.88	0.83	0.88
		2009-10	3597.20	31.17	0.87	
2	State excise	2008-09	205.46	10.38	5.05	3.66
		2009-10	322.75	13.75	4.26	
3	Stamp duty and registration fees	2008-09	192.16	9.91	5.16	2.77
		2009-10	238.20	10.98	4.81	
4	Taxes on vehicles	2008-09	201.57	4.03	2.00	2.93
		2009-10	234.21	5.02	2.14	

During 2008-09 and 2009-10, the percentage of cost of collection to the gross collection of the State was higher than the all-India average percentage of cost of collection for the year 2008-09 in respect of State excise and stamp duty and registration fees, whereas, it was at par in respect of taxes on sales and trade and taxes on vehicles as detailed in **Table 1.4** above.

Non-tax Revenue

The share of non-tax revenue constituted 12 to 17 *per cent* of the total revenue receipts during 2005-10. Its growth rate remained constant during 2008-09 and 2009-10. Non-ferrous Mining and Metallurgical Industries was the major contributor (77 *per cent*) to non-tax revenue.

1.3.2 Loss of Grants-in-aid due to non-fulfilment of NPRE levels

Specific grants amounting to ₹ 77.51 crore and ₹ 44.35 crore for the education and health sectors respectively were included in the total grants-in-aid transferred to the State during 2009 -10, which were significantly lower than the amounts of ₹155.01 crore and ₹ 88.70 crore respectively, recommended by TFC for the year. The precondition for release of grants-in-aid to these sectors was that budget estimates under Non Plan Revenue Expenditure (NPRE) should not be less than the projected 'total NPRE' for 2009-10 and the actuals of 2007-08 for NPRE of the relevant heads should not be less than the total of normal expenditure as prescribed by TFC plus the actual release of the grant for 2007-08. As there was a shortfall in the actual NPRE of 2007-08 in the education and health sectors by ₹ 255 crore and ₹ 95 crore respectively, the State received grants during 2009-10 which were lesser than what was recommended by TFC for the year.

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

During 2009-10, 5716 cases of under-assessment/short levy/losses etc. involving ₹ 4241.97 crore were pointed out in audit during test check of records of 112 units of commercial tax, State excise, motor vehicles, forests and other departments, out of which the Government accepted 4636 cases amounting to ₹ 82.38 crore (3970 cases involving ₹ 58.17 crore were pointed out during 2009-10 and the rest in earlier years). The amount of under-assessment, short levy, etc. pointed out by Audit accounted for 28 *per cent* of the total revenue receipts during the year.

1.3.4 Revenue Arrears

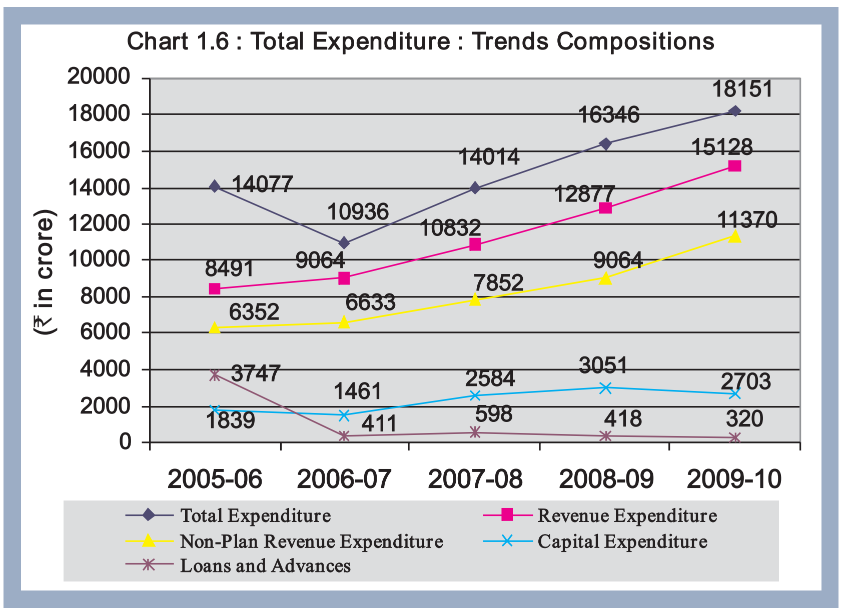
As on 31 March 2010, revenue arrears amounted to ₹ 2029 crore out of which ₹ 457.33 crore were outstanding for more than five years. The revenue arrears as on 31 March 2010 of the State's own resources was 30 *per cent* as against 36 *per cent* at the end of 2008-09. The major portion of the revenue arrears related to the Finance (Commercial Taxes) Department (₹ 1856.26 crore), Mining and Geology Department (₹ 285.58 crore) and the Excise and Prohibition Department (₹ 30.94 crore). Out of the total arrears of these departments, recovery proceedings for ₹ 1065.49 crore were stayed by judicial authorities while arrears of ₹ 348.90 crore were certified for recovery.

1.4 Application of resources

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

1.4.1 Growth and composition of expenditure

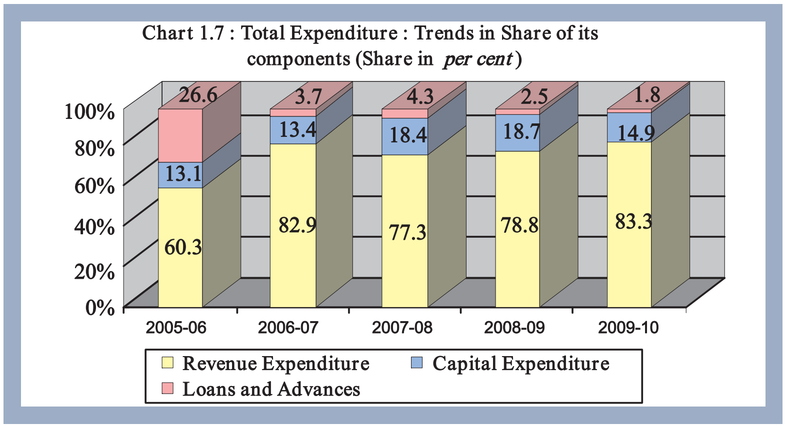
Chart 1.6 presents the trends in total expenditure during 2005-06 to 2009-10. Its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8.** respectively.

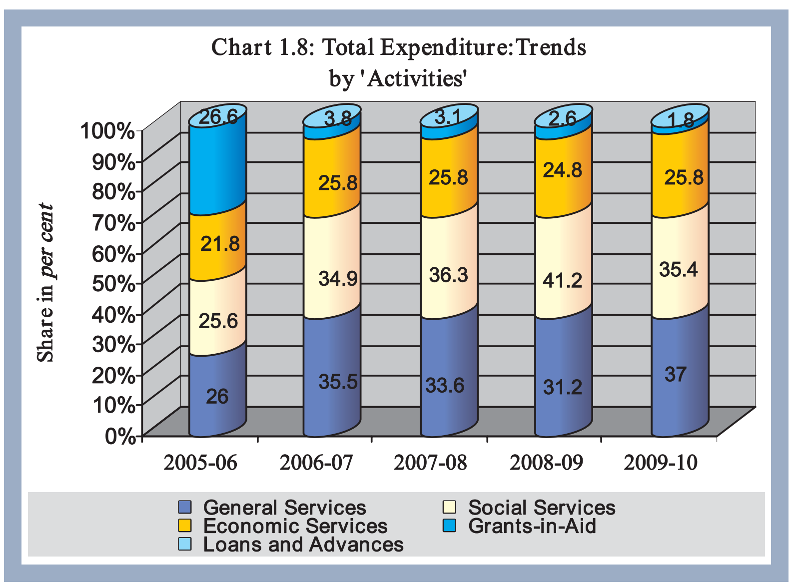


- The total expenditure of the State increased from ₹ 16346 crore in 2008-09 to ₹18151 crore in 2009-10. The increase in total expenditure during 2009-10 was due to increase in revenue expenditure by ₹ 2251 crore (17 *per cent*), which was partly offset by decrease in capital expenditure and loans and advances by ₹ 348 crore (11 *per cent*) and ₹ 98 crore (23 *per cent*) respectively over the previous year. Capital expenditure decreased mainly due to decrease in expenditure on Education, Sports, Art and Culture (₹ 262 crore), Health and Family Welfare (₹ 131 crore), Water Supply Sanitation, Housing and Urban Development (₹101 crore) and Police (₹ 63 crore), which was partly offset by excess expenditure on Transport (₹ 295 crore) and

Rural Development (₹ 66 crore). The decrease in loans and advances was mainly due to decrease in loans to power projects for distribution (₹ 120 crore), which was partly offset by increase in loans for payment of interest on power bonds (₹ 26 crore) during 2009-10.

- The trend in total expenditure in the form of Non-Plan and Plan expenditure during 2009-10 revealed that Non-Plan expenditure and Plan expenditure constituted 63 and 37 *per cent* respectively as against 57 *per cent* and 43 *per cent* respectively in 2008-09. Moreover, increase of ₹ 1805 crore in total expenditure was due to increase in Non-Plan expenditure (₹ 2155 crore) which was partly offset by less Plan expenditure (₹ 351 crore). The percentage of NPRE to the total expenditure oscillated between 45 and 63 during 2005-10. The percentage of NPRE to total expenditure remained constant (56) during 2007-08 and 2008-09 which sharply increased to 63 during 2009-10.





- Revenue expenditure had a dominant share in total expenditure and accounted for 83 *per cent* of the total expenditure during 2009-10 against 79 *per cent* during 2008-09. The increase was mainly due to increase in expenditure on General Services, also termed as unproductive expenditure, by ₹ 1681 crore, (32 *per cent*), whereas expenditure on Social Services and Economic Services remained nearly the same during 2008-09 and 2009-10.

- Revenue expenditure increased from ₹ 8491 crore in 2005-06 to ₹15128 crore in 2009-10.

- Plan revenue expenditure decreased from 30 *per cent* of the total revenue expenditure in 2008-09 to 25 *per cent* in 2009-10, while the rate of growth of NPRE showed wide fluctuation between 4.4 *per cent* and 27.1 *per cent* during 2005-10. The growth rate of NPRE increased sharply from 15.4 *per cent* in 2008-09 to 25.4 *per cent* in 2009-10.

- The buoyancy of revenue expenditure with GSDP and revenue receipts decreased from 2.03 and 1.91 respectively in 2008-09 to 1.80 and 1.22 respectively in 2009-10. The growth rate of revenue expenditure stood at nearly double of the growth rate of GSDP during the year.

- Capital expenditure accounted for 13 to 19 *per cent* of the total expenditure during 2005-10. Though the percentage of capital expenditure to the total expenditure remained more or less constant (19 *per cent*) during 2007-08 and 2008-09, it decreased to 15 *per cent* in 2009-10.

- The capital expenditure was 3.25 *per cent* of GSDP and was slightly higher than the TFC assessment of three *per cent* for 2009-10. However, it was significantly low in comparison to the projection made in MTFP 2010-11 (5.40 *per cent*).

- Loans and advances accounted for two to four *per cent* of the total expenditure during 2005-10. It decreased from ₹ 418 crore in 2008-09 to ₹ 320 crore in 2009-10, mainly due to decrease in loans to power projects by ₹ 83 crore during the current year.

- During 2005-10, expenditure on General Services was almost at par with the expenditure on Social Services, whereas it was much higher than the expenditure on Economic Services. This was indicative of more expenditure on non-developmental/less productive services.

1.4.2 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.5** and **Chart 1.9** present the trend in the expenditure on these components during 2005-10.

Table 1.5: Components of Committed Expenditure

(₹ *in crore*)

Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE#	Actuals
Salaries* & Wages , *Of which*	2547 (30)	2744 (27)	2985 (25)	3948 (30)	6010	5342 (35)
Non-Plan Head	2326 (27)	2518 (25)	2802 (23)	3801 (29)	5859	5154 (34)
Plan Head**	221 (3)	226 (2)	183 (2)	147 (1)	151	188 (1)
Interest Payments	1420 (17)	1613 (16)	1758 (15)	1887 (14)	2429	2307(15)
Expenditure on Pensions	657 (8)	679 (7)	818 (7)	988 (7)	1531	1681(11)
Subsidies	469 (6)	211 (2)	77 (1)	37 (0.3)	366^	41(0.3)
Total	**5093(60)**	**5247 (52)**	**5638 (47)**	**6860(52)**		**9371(62)**

Figures in parentheses indicate percentage of Revenue Receipts

^ *Figures taken from Fiscal Correction Path of the State.*

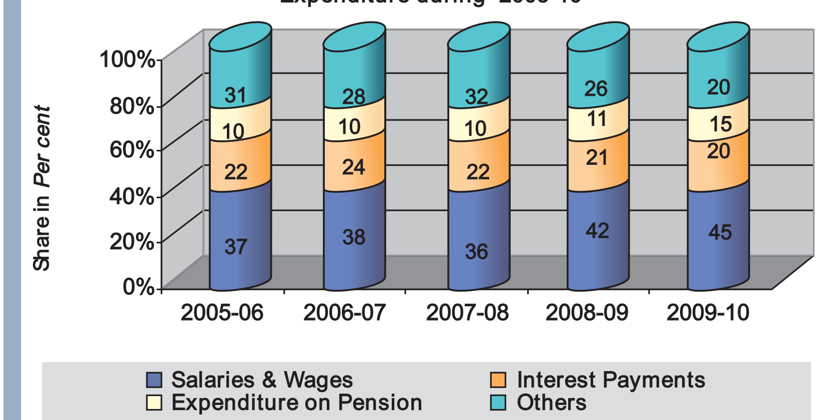
* *It also includes salaries paid out of grants-in-aid.*

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

 # B.E. are gross figures while the actuals are net figures.

(Source: Finance Accounts of Government of Jharkhand)

Chart 1.9: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2005-10



- Salary (₹ 5342 crore), interest (₹ 2307 crore) and pension (₹ 1681 crore) alone accounted for 51 *per cent* of the total expenditure and consumed 62 *per cent* of the revenue receipts during 2009-10. Expenditure on salary under the Non-Plan revenue head as a percentage of Non-Plan revenue expenditure was 45 *per cent* during 2009-10.
- The expenditure on salaries under the revenue head as a percentage of revenue expenditure, net of interest payment and pension payment was 47 *per cent* during 2009-10 against the TFC norm of 35 *per cent.*
- The expenditure on salaries and wages constituted 28 to 35 *per cent* of revenue expenditure and 25 to 35 *per cent* of revenue receipts during 2005-10. However, in 2009-10, it was 35 *per cent* of both the revenue expenditure and revenue receipts of the State.

- The salary expenditure during 2009-10 was less by ₹ 668 crore against the budget provisions, while in comparison to the FCP target, it was lower by ₹ 185 crore.

- The salary expenditure under the Non-Plan head was less by ₹ 705 crore against the budget provisions, while under the Plan head, it was in excess of ₹ 37 crore of the budget provision (₹ 151 crore) during the year.

- Expenditure on salaries under the Non-Plan heads during 2009-10 increased by ₹1353 crore (36 *per cent*) over the previous year, whereas the salary expenditure under Plan heads increased by ₹ 41 crore (28 *per cent*) over the previous year.

- The expenditure on pension increased by 156 *per cent* from ₹ 657 crore in 2005-06 to ₹ 1681 crore in 2009-10. It exceeded by ₹ 150 crore (10 *per cent*) of the budget estimate for 2009-10.

- Pension payments (₹ 693 crore) increased by 70 *per cent* during 2009-10 over the previous year against TFC norms of 10 *per cent*. With the increase in the number of pensioners, the pension liability was likely to increase in future.

- Though interest payments increased by ₹ 420 crore (22 *per cent*) during 2009-10 over the previous year, against a seven *per cent* increase during 2008-09, as a percentage of revenue receipts, interest payments increased from 14 *per cent* in 2008-09 to 15 *per cent* in 2009-10 which was at par with the TFC norms of 15 *per cent*.

- TFC while projecting NPRE for the State for the award period (2005-10) had assigned a growth rate of 8.5 *per cent* in interest payment if the ratio of interest payment to total revenue receipt was less then 23 *per cent* in the base year 2004-05. In the case of Jharkhand, since this ratio was 17 *per cent*, interest payments should have increased at an average rate of 8.5 *per cent*. However, during 2009-10, its growth rate was 22 *per cent*, which was much higher than the TFC norms.

- The State considerably curtailed expenditure on subsidies from ₹ 469.19 crore in 2005-06 to ₹ 37 crore in 2008-09, as reflected in the FCP. Subsidy of ₹ 469.19 crore, ₹ 211.35 crore and ₹ 77.27 crore was given to the power sector alone during 2005-06, 2006-07 and 2007-08 respectively. In 2008-09 and 2009-10, subsidy of ₹ 36.58 crore and ₹ 40.70 crore respectively was given for Agriculture and Allied Activities, while ₹ 0.07 crore and ₹ 0.18 crore was given to Industries and Minerals respectively. No subsidy was given for food during 2005-10 and for power sector during 2009-10.

1.4.3 Financial Assistance by the 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 1.6.**

Table 1.6: Financial Assistance to Local Bodies etc.

(₹ *in crore*)

Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09*	2009-10*
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	363.95	419.59	402.16	636.87	560.07
Municipal Corporations and Municipalities	77.28	109.58	146.07	236.87	114.27
Zilla Parishads and Other Panchayati Raj Institutions	93.09	151.27	79.43	-	-
Development Agencies	551.39	422.54	142.45	408.58	463.35
Other Institutions	69.79	528.20	496.01	1083.53	1195.25
Total	1155.50	1631.18	1266.12	2365.85	2332.94
Assistance as percentage of RE	14	18	12	16	15

Prepared on the basis of New Statement 8 included in Finance Accounts 2009-10.

Financial assistance to local bodies increased steadily from ₹ 1155.50 crore in 2005-06 to ₹ 2332.94 crore in 2009-10. The financial assistance in 2009-10 decreased mainly due to decrease in assistance to educational institutions (₹ 76.80 crore) and municipal corporations (₹ 122.60 crore). The total assistance to these bodies during 2009-10 stood at 15 *per cent* of revenue expenditure against 16 *per cent* in the previous year.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State 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 its effectiveness (assessment of outlay-outcome relationship for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Government are largely State subjects. Thus, in order to enhance social development levels in the States, it is essential to increase expenditure on key social services like education, health etc. 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 State's average. **Table 1.7** analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table 1.7: 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	Education/ AE	Health/ AE
*16 Other General Category States Average (Ratio) 2005-06	17.75	61.76	30.76	13.97	14.95	4.05
Jharkhand State's Average (Ratio) 2005 -06	25.65	73.93	26.17	13.06	12.78	3.78
*16 other General Category States Average (Ratio) 2009-10	18.24	66.05	35.76	14.85	16.21	4.28
Jharkhand State's Average (Ratio) 2009-10	21.85	62.92	35.76	14.89	18.01	3.77

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.
*Excluding Goa, Delhi and Puduchery

Table 1.7 depicts the fiscal priorities given to various categories of expenditure of the State in 2005-06 (the first year of the award period of TFC) and in the current year i.e. 2009-10 (the terminal year of the TFC's award period).

The State Government's Aggregate Expenditure (AE) as a proportion of GSDP was more than the general category States' average during 2005-06 and 2009-10. The Government gave adequate fiscal priority to Development Expenditure (DE) during 2005-06 but did not give the same during 2009-10 since, DE/AE was higher than the general category States' average during 2005-06 but the same was lower in 2009-10.

The fiscal priority given to Social Sector Expenditure was, however, satisfactory during 2009-10 since SSE/AE was the same as the general category States' average.

The Capital Expenditure (CE) as a proportion of the aggregate expenditure was lower than the general category States during 2005-06 but the same increased during 2009-10 showing adequate priority given to capital expenditure during the year.

The expenditure on education as a proportion of the aggregate expenditure was lower during 2005-06 but the same was higher during 2009-10 showing adequate fiscal priority given to education. However, the priority given on health was lower during 2005-06 and 2009-10. The Government should consider giving greater fiscal priority to health.

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 rationalisation measures and lay emphasis on provision of core public and merit goods[3]. Apart from improving the

[3] Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay 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.

allocation towards development expenditure[4], 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 total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.8** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-a-vis* budgeted amounts and expenditure during the previous years, **Table 1.9** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected Social and Economic services.

Table 1.8: 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)						
a. Development Revenue Expenditure	4913 (34)	5252 (46)	6224 (42)	7918 (46)	4564	8523(47)
b. Development Capital Expenditure	1763 (12)	1389 (12)	2476 (17)	2875 (17)	3354	2591(14)
c. Development Loans and Advances	3731 (26)	397 (3)	586 (4)	411 (2)	374	308(2)
Figures in parentheses indicate percentage to aggregate expenditure (R.E. +C.E. +L&A)						
* Budget estimates are gross figures while actuals are net figures.						

(Source: Finance Accounts of Government of Jharkhand)

The Development Expenditure (DE) of the State comprised revenue and capital expenditure including loans and advances on socio-economic services. Development revenue expenditure constituted the major share of this expenditure and ranged between 42 and 47 *per cent* of AE, except in 2005-06 (34 *per cent*). Capital expenditure had a lesser share and ranged from only 12 to 17 *per cent* of the AE of the State during 2005-10. The loans and advances by the State ranged from two to four *per cent* of AE except in 2005-06 (26 *per cent*). The low percentage of revenue expenditure to AE, during 2005-06 was due to high percentage of disbursement of loans and advances to the Jharkhand State Electricity Board for making repayments of outstanding interest against bonds issued by the Board. The growth rate of developmental revenue expenditure decreased sharply from 27 *per cent* in 2008-09 to eight *per cent* in 2009-10, while the growth rate of developmental capital expenditure decreased from 16 *per cent* in 2008-09 to (-) 10 *per cent* in 2009-10. Developmental loans and advances decreased from ₹ 586 crore in 2007-08 to ₹ 411 crore in 2008-09, which further decreased to ₹ 308 crore in 2009-10. Moreover, as depicted in the above table, all the above-mentioned expenditure was much below the budgeted amounts.

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[4]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 1.9 –Efficiency of Expenditure Use in Selected Social and Economic Services

(*Per cent*)

Social/Economic Infrastructure	2008-09			2009-10		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M*		S&W	O &M
Social Services (SS)						
General Education	1.28	46.98	00	0.41	58.95	00
Health and Family Welfare	27.56	49.38	0.06	12.40	65.83	0.05
WS, Sanitation, & HUD	69.68	28.86	7.53	66.48	28.23	17.49
Total (SS)	**20.10**	**33.70**	**0.47**	**12.82**	**45.47**	**0.95**
Economic Services (ES)						
Agri. & Allied Activities	1.93	47.46	0.14	0.94	41.61	0.01
Irrigation and Flood Control	52.12	93.73	2.18	43.80	95.82	1.27
Power & Energy	-	-	00	00	00	00
Transport	62.23	18.87	11.34	71.61	22.99	8.77
Total (ES)	**37.51**	**31.02**	**1.72**	**37.75**	**29.53**	**1.83**
Total (SS+ES)	**26.63**	**32.84**	**0.87**	**23.32**	**40.03**	**1.25**

TE: Total Expenditure of that sector; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance *.

* As per Finance Accounts it represents actual expenditure booked under detailed head -05- Maintenance and Repairs..

(Source: Finance Accounts of Government of Jharkhand)

Expenditure on Social Services

- Expenditure on Social Services increased steadily by 78 *per cent* from ₹ 3607 crore in 2005-06 to ₹ 6435 crore in 2009-10, ranging between 26 and 41 *per cent* of the total expenditure during 2005-10 and accounted for 56 *per cent* of total expenditure on DE (₹ 11421 crore).
- During 2009-10, the expenditure on Social Services decreased by five *per cent* (₹ 305 crore) over the previous year. Decrease in expenditure of ₹ 305 crore on Social Services during 2009-10 was mainly due to decrease in capital expenditure on all the social services.
- Out of the total expenditure on Social Services during 2005-10, 50 to 52 *per cent* was incurred on Education, Sports, Arts and Culture, 10 to 16 *per cent* on Health and Family Welfare and 9 to 15 *per cent* on Water Supply and Sanitation, Housing and Urban Development.

Expenditure on Economic Services

- The expenditure on Economic Services increased by 56 *per cent* from ₹ 3069 crore in 2005-06 to ₹ 4679 crore in 2009-10, ranging between 22 *per cent* and 29 *per cent* of the total expenditure in 2005-10. It constituted 41 *per cent* of the developmental expenditure during 2009-10.
- Out of the total expenditure on Economic Services, the percentage of expenditure on Agriculture and Allied Activities decreased from16 *per cent* in 2008-09 to 14 *per cent* in 2009-10, whereas the expenditure on Energy and Transport increased significantly from four and 22 *per cent* in 2008-09 to 10 and 25 *per cent* in 2009-10 respectively.
- The percentage of sector-wise capital expenditure to sector-wise total expenditure on Social Services and Economic Services decreased

during 2009-10 over the previous year except on transport, which recorded an increase of 9.38 *per cent* in 2009-10 over the previous year.

- The salary component in Revenue Expenditure in different sectors of Social and Economic Services increased during 2008-09 and 2009-10, except in Agriculture and Allied Activities, where it decreased by ₹ 32.45 crore (5.85 *per cent*).
- During 2009-10, the State Government spent only ₹ 161.09 crore under the revenue account under the detailed head- "05- Maintenance and Repairs to maintain public assets". The corpus of assets, being maintained with ₹ 161.09 crore was large and the limited allocation of funds may not suffice to keep the assets in a state of good repair.

1.6 Financial analysis of Government expenditure and investments

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

1.6.1 Incomplete projects

Department-wise information pertaining to incomplete projects as on 31 March 2010 is given in **Table 1.10.**

Table 1.10: Department-wise Profile of Incomplete Projects

(₹ *in crore*)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects*	Cost Over Runs	Cumulative actual expenditure as on 31.3.2010
Road Construction Department	156	943.75	56.33	-	500.61
Drinking Water and Sanitation Department	51	568.92	30.50	-	312.05
Water Resources Department	49	860.79	832.81	-	644.57
Building Department	6	19.42	-	-	8.75
Total	262	2392.88	919.64	-	1465.98

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

(Source: Finance Accounts of Government of Jharkhand)

- The 262 incomplete projects pertained to the Road Construction Department (156), Drinking Water and Sanitation Department (51), Water Resources Department Department (49) and Building Construction Department (6).

- Target dates for completion of the incomplete projects given in **Table 1.10** were from March 2003 to March 2010. Revised dates for completion of the projects had not been provided by the Government.
- The investment in total 262 incomplete projects as on 31.03.2010 amounted to ₹ 1465.98 crore against the estimated cost of ₹ 2392.88 crore.

1.6.2 Investment and returns

As of 31 March 2010, the Government had invested ₹ 128.73 crore in nine Government companies (₹ 20.55 crore) and 15 co-operatives, banks and societies (₹ 108.18 crore) since the inception of the State **(Table 1.11)**. The average return on this investment was reported to be 'nil' during the last five years while the Government paid an average interest rate of 7.83 *per cent* on its borrowings during 2005-2010.

Table 1.11: Returns on investment

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	25.05	28.70	98.96	112.47	128.73
Return (₹ in crore)	Nil	Nil	Nil	Nil	Nil
Return *(per cent)*	Nil	Nil	Nil	Nil	Nil
Average rate of interest on Govt. borrowing *(per cent)*	7.55	8.20	7.97	7.42	8.03
Difference between interest rate and return *(per cent)*	7.55	8.20	7.97	7.42	8.03

(Source: Finance Accounts of Government of Jharkhand)

The investment of ₹ 16.26 crore (13 *per cent*) made during 2009-10 was mainly in the Regional Rural Bank (₹ 12.06 crore) and Integrated Child Development Programme, financed by the National Co-operative Development Corporation (₹ 1.50 crore). In the absence of up to date accounts of major companies, it is difficult to make comments/observations on their financial position especially regarding their accumulated losses. Investments in these institutions as well as statutory corporations and joint stock companies up to 14 November 2000 by the composite Bihar State had not been apportioned between the successor States of Bihar and Jharkhand.

1.6.3 Departmental Commercial Undertakings

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

There were 31 such units under various departments *viz.* Agriculture (22), Forest (5), Animal Husbandry (2), Health (1) and Finance (1) in the State which were required to prepare proforma accounts annually. However, information regarding proforma accounts had not been provided by the State's departments as of October 2010.

1.6.4 *Loans and advances by State Government*

In addition to investments in co-operative societies, corporations and companies, the Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.12** presents the outstanding loans and advances as on 31 March 2010, and interest receipts *vis-a-vis* interest payments during the last five years.

Table 1.12: Average Interest Received on Loans Advanced by the State Government.

(₹ *in crore*)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Opening Balance	1330	5067	5462	6016	6415
Amount advanced during the year	3747	411	598	418	320
Amount repaid during the year	10	16	44	19	22
Closing Balance	**5067**	**5462**	**6016**	**6415**	**6713**
Net addition	3737	395	553	399	298
Interest Receipts	71	38	87	110	153
Interest Receipts as a percentage of outstanding Loans and advances	2.24	0.72	1.52	1.77	2.33
Interest Payments as a percentage of outstanding fiscal liabilities of the State Government.	9.20	8.77	8.57	8.26	9.00
Difference between Interest Payments and Interest Receipts (*per cent*)	(-) 6.96	(-)8.05	(-)7.05	(-) 6.5	(-)6.67

(Source: Finance Accounts of Government of Jharkhand)

- The quantum of loans advanced to co-operative societies, companies etc. by the State decreased from ₹ 418 crore in 2008-09 to ₹ 320 crore in 2009-10. The decrease was mainly due to decrease in loans and advances by ₹ 83 crore to the Jharkhand State Electricity Board during 2009-10.
- The total interest receipts during 2009-10 were in the form of interest income which accrued to the Government on the cash balances held with the Reserve Bank of India (₹ 145.55 crore). Interest receipts on loans advanced by the Government to institutions/organizations was `nil` while the Government borrowed funds at the rate of 8.03 *per cent* during the current year. The interest receipts stood at only 2.33 *per cent* of the outstanding loans against the TFC recommendation of seven *per cent* by the end of 2009-10.
- The repayment of outstanding loans and advances was very poor ranging between 0.3 *per cent* and 0.8 *per cent* of the total outstanding loans and advances during 2005-10. The Jharkhand State Electricity Board (JSEB) was the major defaulter in re-payment of debt-service obligations. Out of the total outstanding loans of ₹ 6713 crore at the end of March 2010, ₹ 6143 crore (92 *per cent*) was outstanding against JSEB and ₹ 502 crore was outstanding against urban local bodies.

1.6.5 *Cash balances and investment of cash balances*

Details of cash balances and investments made by the State Government during the year are shown in **Table 1.13.**

Table-1.13: Cash Balances and Investment of Cash balances

(₹ *in crore*)

Particulars	As on 1st April 2009	As on 31st March 2010	Increase/ Decrease
Cash Balances			
Investments from Cash Balances (a to d)	978.99	1359.39	380.40
a. GOI Treasury Bills	974.58	1354.98	380.00
b. GOI Securities	-	-	-
c. Other Securities, if any specify	-	-	-
d. Other Investments	4.41	4.41	-
Fund-wise Break-up of Investment from Earmarked balances (a to c)	-	-	-
Interest Realised	109.05	145.55	36.50

(Source: Finance Accounts of Government of Jharkhand)

- During 2009-10, the major part of the cash balances (99.7 *per cent*) was invested in GOI Treasury Bills at an interest rate of five *per cent*, which was lesser than the interest paid (8.03 *per cent*) by the State, on its borrowings. Therefore, had the cash balances been invested at market rates, the State could have benefited in the shape of interest receipts which could have been more than 50 *per cent* of the interest earned on investments in GOI treasury bills during the period. Moreover, it would have been prudent on the part of the State to repurchase the high cost market loans of the State on which the State Government had to bear interest up to 13 *per cent* per annum instead of investing the cash balances in GOI treasury bills.
- Although, the State had a cash balance of ₹ 1359.39 crore at the end of March 2010 invested in GOI treasury bills, it borrowed ₹ 1844 crore at an average interest rate of 8.03 *per cent* during the year.

1.7 Assets and Liabilities

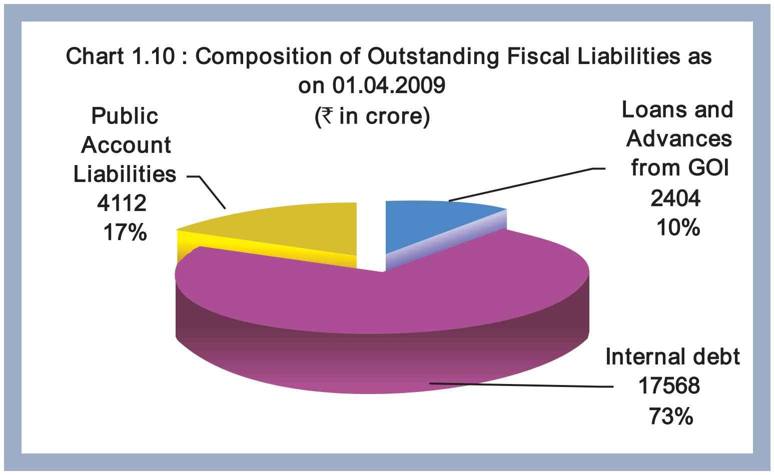
1.7.1 Growth and composition of assets and liabilities

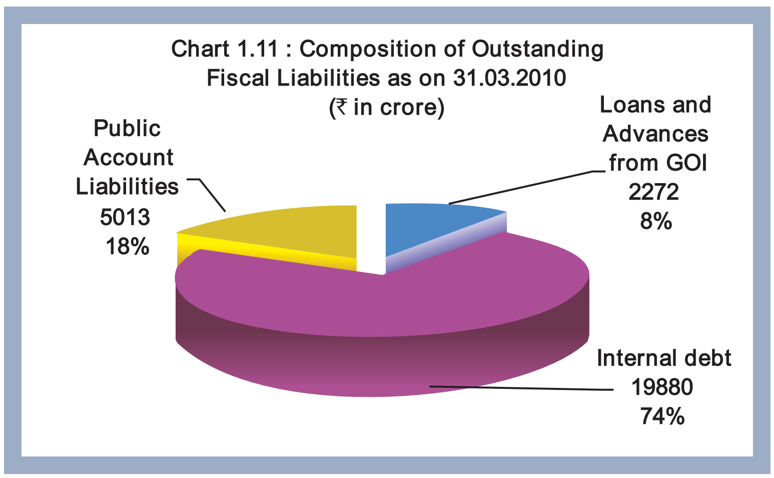
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly of capital outlay, loans and advances given by the State Government and cash balances.

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

1.7.2 Fiscal Liabilities

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





- The overall fiscal liabilities of the State increased by 56 *per cent* from ₹ 17360 crore in 2005-06 to ₹ 27165 crore in 2009-10. The growth rate of fiscal liability was 12.79 *per cent* during 2009-10 against 11.42 *per cent* in 2008-09.
- Increasing liabilities raises the issue of sustainability of State Government finances. The ratio of fiscal liabilities to GSDP increased steadily from 31.6 in 2005-06 to 32.7 *per cent* in 2009-10. These liabilities remained almost constant in comparison to the revenue receipts (1.8 times) and of the State's own resources (4.02 times) during 2008-09 and 2009-10. The Thirteenth Finance Commission has recommended that all States should reduce their fiscal liabilities to 25 *per cent* of GSDP by 2014-15. The Government may consider taking steps to achieve this outcome.
- Apportionment of fiscal liabilities of undivided Bihar between the successor States of Bihar and Jharkhand had not been done so far (September 2010).

1.7.3 *Status of Guarantees – Contingent liabilities*

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

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

In Statement 9 of the Finance Accounts, no data has been given as no information in this regard was provided by the Government during 2009-10 and even earlier. However, the FCP of the State revealed that at the end of March 2010, ₹ 500 crore was outstanding in the shape of guarantees given by the Government. No further details were made available.

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

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

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability[5] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation[6]; sufficiency of non-debt receipts[7]; net availability of borrowed funds[8]; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.14** analyses the debt sustainability of the State according to these indicators for the period of four years beginning from 2005-06.

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

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

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

[8] Defined as the ratio of debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which debt receipts are used in debt redemption indicating the net availability of borrowed funds.

Table 1.14: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilisation (Quantum Spread + Primary Deficit)	(-)4494	1814	(-)10	(-)1011	(-)535
Sufficiency of Non- debt Receipts (Resource Gap)	(-)3386	4693	(-)1033	(-)1171	103
Net Availability of Borrowed Funds	2429	444	439	583	3081
Burden of Interest Payments (IP/RR Ratio)	17	16	15	14	15
Maturity Profile of State Debt (In Years)					
0 – 1	*	*	5	775(4)	1183(5)
1 – 3	*	*	1850(10)	2508(13)	2885(13)
3 – 5	*	*	2689(15)	2829(14)	3263(15)
5 – 7	*	*	2771(15)	2635(13)	2569(12)
7 and above	*	*	11084(60)	11225(56)	12252(55)
Total	*	*	**18399**	**19972**	**22152**

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

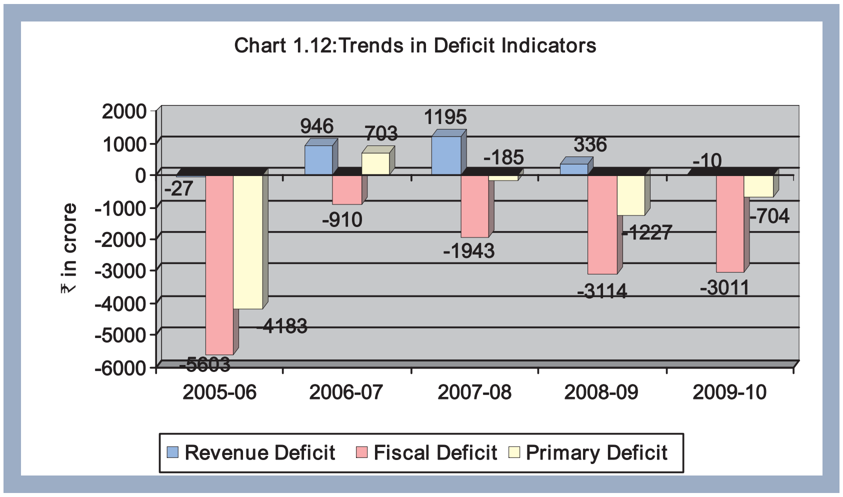
- As may be seen from the above table, the quantum spread together with the primary deficit has been fluctuating during 2005-10. It was negative during 2005-06, 2007-08, 2008-09 and 2009-10 except during 2006-07. The quantum spread together with the primary deficit, decreased from (-) ₹ 1011 in 2008-09 to (-) ₹ 535 during 2009-10, which was indicative of a fall in the debt-GSDP ratio, leading to an improvement in the debt sustainable position. However, as long this indicator shows a negative value, debt stabilisation will continue to be a concern.
- The ratio of fiscal liabilities to GSDP increased from 31.6 in 2005-06 to 31.8 in 2008-09 and to 32.7 in 2009-10. In 2005-06, the quantum spread was negative and the primary deficit was at its highest level, whereas, during 2009-10, the quantum spread was positive, though it was very low (₹ 169 crore) and the primary deficit was also low to ₹ 704 crore, resulting in slight improvement in debt-GSDP ratio in the year.
- As far as the resource gap is concerned, against a positive resource gap of ₹ 4693 core in 2006-07, the resource gap of the State during 2007-08 was (-) ₹1033 crore, which further increased to (-) ₹ 1171 crore in 2008-09, which indicated an unstable fiscal position of the State. However, in 2009-10, the position improved with a positive resource gap of ₹ 103 crore.
- The ratio of interest payments to revenue receipts showed some improvement as it declined from 17 *per cent* in 2005-06 to 15 *per cent* in 2009-10. However, when compared with the previous year it increased by one *per cent* during 2009-10.
- The maturity profile of the State debt shows that the debt liability was increasing for every block period which is indicative of increasing debt liabilities in future. Further borrowings should be made in such a way that there is no bunching of debt repayments in any year as that will cause undue stress on the budget.
- The State needs to improve the position in the ensuing years by strictly adhering to the policies adopted in the FRBM Act and FCP.

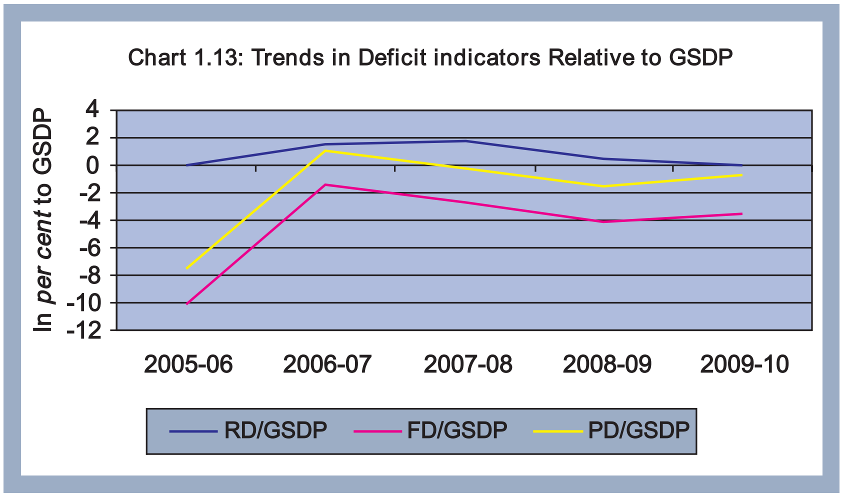
1.9 Fiscal imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of the overall fiscal imbalances in the finances of the State 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 resources raised are applied, are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the manner of financing of these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-a-vis* the targets set under the FRBM Act/Rules for the financial year 2009-10.

1.9.1 Trends in deficits

Chart 1.12 and **1.13** present the trends of deficit indicators over the period 2005-10.





- The State had a revenue surplus during 2006-09. However, the amount of revenue surplus decreased from ₹ 1195 crore in 2007-08 to ₹ 336 crore in 2008-09. But during 2009-10, the State had a revenue deficit of (-) ₹ 10 crore. Though the State had the target of reducing the revenue deficit to 'nil' by the end of 2009 as given in FRBM Act of the State and the TFC, it failed to sustain the position. Also, the State failed to achieve the revenue surplus of ₹ 2614 crore estimated in its MTFP 2010-11. Revenue surplus-GSDP percentage as estimated in MTFP 2010-11 (3.69 *per cent*) had also not been achieved during 2009-10.

- The fiscal deficit of the State increased from ₹ 910 crore in 2006-07 to ₹ 3114 crore in 2008-09 which slightly decreased to ₹ 3011 crore during 2009-10. The percentage of fiscal deficit to GSDP was 3.62 *per cent* at the end of March 2010 against the FRBM target and TFC norm of three *per cent* at the end of March 2009 which was further revised to 1.82 *per cent* for 2009-10 in MTFP 2010-11 of the State.
- Against the primary surplus of ₹ 704 crore in 2006-07, there was a primary deficit of ₹ 185 crore in 2007-08, which further increased to ₹ 1227 crore at the end of 2008-09. However, during 2009-10, it showed improvement and decreased to ₹ 704 crore. The primary deficit was 0.8 *per cent* of GSDP against the estimate of primary surplus of three *per cent* of GSDP, starting from the end of March 2008 depicted in the FRBM Act, 2007. However, as per the revised estimate in MTFP 2010-11, it was targeted at 1.01 *per cent*.

1.9.2 Components of Fiscal Deficit and its financing pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1. 15.**

Table 1.15: Components of Fiscal Deficit and its Financing Pattern

(₹ *in crore*)

	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit						
1	Revenue Deficit	(-)27	946	1195	336	(-)10
2	Net Capital Expenditure	1839	1461	2584	3051	2703
3	Net Loans and Advances	3737	395	554	399	298
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	241	262	921	1238(1.64)	1674(2.01)
2	Loans from GOI	(-)145	(-)145	(-)161	(-)136	(-)133
3	Special Securities Issued to NSSF	1634	1214	125	54 (0.1)	670(0.81)
4	Loans from Financial Institutions	47	143	602	1348(1.78)	180(0.22)
5	Small Savings, PF etc	212	229	162	200(0.26)	272(0.33)
6	Deposits and Advances	358	396	625	799(1.06)	273(0.33)
7	Suspense and Miscellaneous	1790	(-)722	(-)447	709(0.94)	(-)258
8	Remittances	(-)89	(-)85	(-)146	(-)11	(-)39
9	Others	(-)9651	(-)2201	(-)3624	(-)7315	(-)5650
10	Overall Surplus/Deficit	(-)5603	(-)910	(-)1943	(-)3114	(-)3011

Figures in brackets indicate the percentage with respect to GSDP.
***All these figures are net of disbursements/outflows during the year**
(Source: Finance Accounts of Government of Jharkhand)

During 2009-10, the fiscal deficit of ₹ 3011 crore was mainly met from market borrowings (₹ 1674 crore), Small Savings Provident Fund (₹ 272 crore) and Deposits and Advances (₹ 273 crore), thereby increasing the interest burden in the future. However, borrowings in the shape of loans from other institutions, deposit and advances and suspense and miscellaneous had sharply decreased during the year, which indicated improvement in the financial position of the State.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, a persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. Bifurcation of the primary deficit **(Table 1.16)** would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable for improving the productive capacity of the State's economy.

Table 1.16: Primary deficit/surplus – bifurcation of factors

(₹ *in crore*)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue Deficit (-) / Surplus (+)	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2005-06	8474	7071	1839	3747	12657	(+)1403	(-) 4183
2006-07	10026	7451	1461	411	9323	(+)2575	(+) 703
2007-08	12071	9074	2584	598	12256	(+)2997	(-) 185
2008-09	13232	10990	3051	418	14459	(+)2242	(-)1227
2009-10	15140	12821	2703	320	15844	(+)2319	(-)704

(Source: Finance Accounts of Government of Jharkhand

- During 2005-06 to 2009-10, the non-debt receipts of the State increased from ₹ 8474 crore to ₹ 15140 crore against a corresponding increase in primary revenue expenditure and primary expenditure. However, capital expenditure showed fluctuations during the period.
- The surplus receipts were not enough to meet the expenditure requirement under the capital account, resulting in primary deficits during the period 2005-10 (except 2006-07).
- These trends indicate that the primary deficit occurred on account of enhancement of revenue expenditure which should be curtailed in future to increase capital expenditure to increase the productive capacity of the State.

1.10 Conclusion

The State achieved the target of reducing its revenue deficit to zero, much before the time line given in FRBM Act but it failed to sustain the position during 2009-10 and had a revenue deficit of ₹ 10 crore in 2009-10 as against the estimate of ₹2614 crore given in MTFP 2010-11 of the State. The primary deficit increased from ₹ 185 crore in 2007-08 to ₹ 1227 crore in 2008-09. However, it decreased to ₹ 704 crore in 2009-10. The State also failed to achieve the target set for fiscal deficit as the fiscal deficit of the State was four *per cent* of the GSDP at the end of March 2010 against the FRBM target and TFC norm of three *per cent* by the end of March 2009.

Non-Plan Revenue Expenditure constituted 75 *per cent* of the revenue expenditure. It significantly exceeded both the normative projection of TFC and the FCP target.

The revenue expenditure on salaries constituted 35 *per cent* of both revenue receipts and revenue expenditure during 2009-10, which was within the limits of the FCP target of 37 *per cent*, while the total salary expenditure relative to revenue expenditure, net of interest and pension payment was 47 *per cent* during 2009-10 against the TFC norm of 35 *per cent*. The expenditure on pension increased by ₹ 693 crore (70 *per cent*) in 2009-10 over the previous year as against the TFC norm of 10 *per cent*. Subsidy of ₹ 40.71 crore and ₹ 0.17 crore was given in 2009-10 for Agriculture and Allied Activities and Industries and Minerals respectively.

Although, the State had a cash balance of ₹ 1359.39 crore at the end of March 2010 invested in Government of India treasury bills, it borrowed ₹ 1844 crore at an average interest rate of 8.03 *per cent* during the year.

1.11 Recommendations

- The State should strictly adhere to the Fiscal Correction Path prepared to achieve the financial target in the light of TFC recommendation as the revenue surplus during the last three years turned to revenue deficit in 2009-10. Also the State should put in concrete efforts to maintain its fiscal deficit within the FRBM target.
- There is a need to initiate suitable measures to compress Non-Plan Revenue Expenditure and to mobilise additional resources, both through tax and non-tax sources and to collect the arrears of revenue.
- The higher percentage of capital expenditure to GSDP during the year, against the TFC norms of three *per cent*, indicates that adequate fiscal priority to capital expenditure has been given by the State. However, financial outlays on capital expenditure need to be converted to physical assets in a timely manner so that the intended outcomes are actually realised.
- Regarding returns on Government investments, the Government should seek better value for money in investments. Otherwise, increasing fiscal liabilities accompanied by negligible rates of return on investments, might lead to a situation of unsustainable debt.
- The State has to address the issues of incomplete projects and make efforts to overcome further cost and time overruns related to the same.