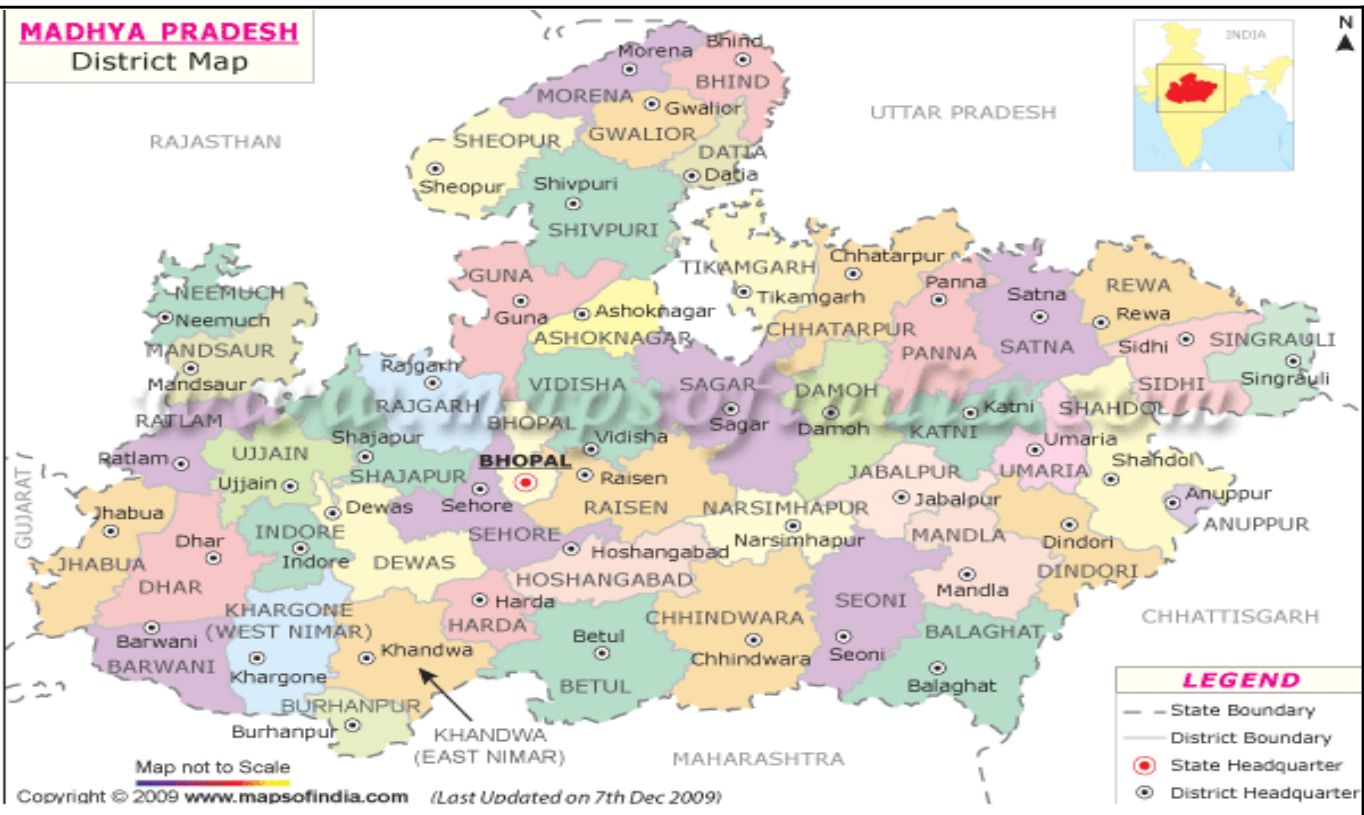

Chapter-I

FINANCES OF THE STATE
GOVERNMENT

MADHYA PRADESH
District Map



LEGEND

- State Boundary
- District Boundary
- State Headquarter
- ⊙ District Headquarter

Map not to Scale

CHAPTER I

Finances of the State Government

Profile of Madhya Pradesh

Madhya Pradesh is an agrarian landlocked State and also one of the leading States in the country in mineral production. The composite State of Madhya Pradesh was founded on 1 November 1956. In terms of the Madhya Pradesh Reorganization Act 2000 (No.28 of 2000), 16 districts¹ of the erstwhile State of Madhya Pradesh formed the new State of Chhattisgarh on 1 November 2000. As indicated in **Appendix 1.1**, in the last ten years, the density of population in Madhya Pradesh has increased from 196 persons per sq. km to 236 person per sq. km. Madhya Pradesh has higher poverty levels as compared to the all-India average. The State has shown lower economic growth in the past decade as the compound annual growth rate of its Gross State Domestic Product for the period 2001-02 to 2010-11 has been 13.51 *per cent* as compared to 14.68 *per cent* in General Category States. During this period, its population grew by 20.30 *per cent* against 17.56 *per cent* in General Category States. The Gini coefficient² shows that the inequality of income distribution in case of rural areas of Madhya Pradesh was less than the all-India average but more in case of urban areas. The *per capita* income in Madhya Pradesh has been lower than that of the General Category States in the current decade.

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Madhya Pradesh during 2010-11 and analyses the critical changes observed in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure and form of Government Accounts and the layout of the Finance Accounts are depicted in **Appendix 1.2-Part-A and B**. The methodology adopted for the assessment of the fiscal position and norms/ceilings prescribed by the Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 and trends in select indicators are depicted in **Appendix-1.3- Part-A, B and C**.

The apportionment of assets and liabilities of the composite State of Madhya Pradesh prior to the date of reorganization as well as other financial adjustments are carried out in accordance with the provisions of the Act³. The actual progress achieved in this direction is indicated in **Appendix-1.2-Part-C**.

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

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

³ *ibid*

1.2 Summary of Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2010-11) *vis-à-vis* the previous year while **Appendix 1.5 Part-A** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1: Summary of Current Year's Fiscal Transactions

(₹ in crore)

2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
Section-A: Revenue							
					Non-Plan	Plan	Total
41,394.70	Revenue Receipts	51,854.18	35,896.90	Revenue expenditure	32,100.87	12,910.72	45,011.59
17,272.81	Tax revenue	21,419.34	12,013.78	General services	14,533.98	112.70	14,646.68
6,382.04	Non-tax revenue	5,719.77	12,961.85	Social services	9,488.38	7,857.02	17,345.40
11,076.98	Share of Union Taxes/ Duties	15,638.51	8,371.37	Economic services	5,689.89	4,394.59	10,084.48
6,662.87	Grants from Government of India	9,076.56	2,549.90	Grants-in-aid and Contributions	2,388.62	546.41	2,935.03
Section-B: Capital							
21.69	Misc. Capital Receipts	366.54	7,924.87	Capital Outlay	142.81	8,657.07	8,799.88
23.37	Recoveries of Loans and Advances	33.65	3,816.88	Loans and Advances disbursed	2,755.41	959.32	3,714.73
2.76	Inter-State settlement	1.64	2.78	Inter-State settlement			1.85
8,602.51	Public Debt receipts*	7,457.94	2,394.05	Repayment of Public Debt*			2,529.23
--	Contingency Fund	--	--	Contingency Fund			--
52,353.12	Public Account receipts	65,675.10	50,871.84	Public Account disbursements			62,344.26
2,422.10	Opening Cash Balance	3,912.93	3,912.93	Closing Cash Balance			6,900.44
1,04,820.25	Total	1,29,301.98	1,04,820.25	Total			1,29,301.98

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

(Source: State Finance Accounts of the respective years)

The following are the major changes during 2010-11 over the previous year:

- Revenue receipts increased by 25 per cent mainly due to increase in State's share of Union taxes and duties by 41 per cent, grants from Government of India (GOI) by 36 per cent and the State's own tax revenue by 24 per cent. This has resulted in an increase in the revenue surplus from ₹ 5,498 crore in 2009-10 to ₹ 6,842 crore in 2010-11.
- Revenue expenditure increased by 25 per cent (Non-Plan: 23 per cent and Plan: 31 per cent) and Capital expenditure increased by 11 per cent (Non-Plan increased by 134 per cent and Plan increased by 10 per cent).
- Public debt receipts decreased by 13 per cent and public debt repayments increased by six per cent in 2010-11 over the previous year. The decrease in public debt receipts was mainly due to decrease in borrowings (internal debt: ₹ 895 crore and loans and advances by GOI: ₹ 250 crore).
- Public account receipts and disbursements increased by ₹ 13,322 crore and ₹ 11,472 crore respectively in 2010-11 relative to the previous year resulting in a net increase of ₹ 1,850 crore.
- As a result of inflow/outflow of the funds stated above, the cash balances of the State at the close of 2010-11 increased by ₹ 2,988 crore over the previous year.

1.3 Review of the fiscal position

In response to the Twelfth Finance Commission's recommendation, the Government of Madhya Pradesh enacted its Fiscal Responsibility and Budget Management Act, 2005 which came into force from 1 January 2006 with a view to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal deficit, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework. The 13th Finance Commission was constituted on 13 November 2007 for making recommendations, *inter-alia*, on measures needed to augment the resources of the States to supplement the resources of panchayats and municipalities and review the operation of State Debt Consolidation and Relief Facility and suggest measures for maintaining a stable and sustainable fiscal environment with equitable growth. The report was finalised by the 13th Finance Commission in December 2009.

The fiscal performance of the State *vis-à-vis* FRBM targets and those framed in the Mid-Term Fiscal Policy Statement (MTFPS) for the year 2010-11 is presented in **Table 1.2** below:

Table 1.2: Fiscal forecasts under FRBM Act and MTFPS

Fiscal forecasts	FRBM Targets	Projection as per MTFPS	Actual
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	To be wiped out by 2008-09	(+) 1,581	(+) 6,842
Fiscal Deficit (-)/ Surplus (+) (₹ in crore)	To reduce to not more than four <i>per cent</i> of GSDP by 2008-09 (₹ 10,867 crore)	(-) 8,003 (four <i>per cent</i> of GSDP)	(-) 5,272 (1.94 <i>per cent</i> of GSDP)
Total Fiscal Liabilities (including guarantees)	40 <i>per cent</i> of GSDP by 31 March 2015	38.78 <i>per cent</i> of GSDP	29.67 <i>per cent</i> of GSDP
Outstanding Guarantees	Not to exceed 80 <i>per cent</i> of the total RR of preceding year	** <i>per cent</i> of RR of preceding year	12.35 <i>per cent</i> * of RR of preceding year

*To the extent information was available in Finance Accounts.

** BE figure of outstanding guarantees for 2010-11 not available

(Source: Statement laid before the legislature under FRBM Act during 2010-11 and State Finance Accounts of the respective years)

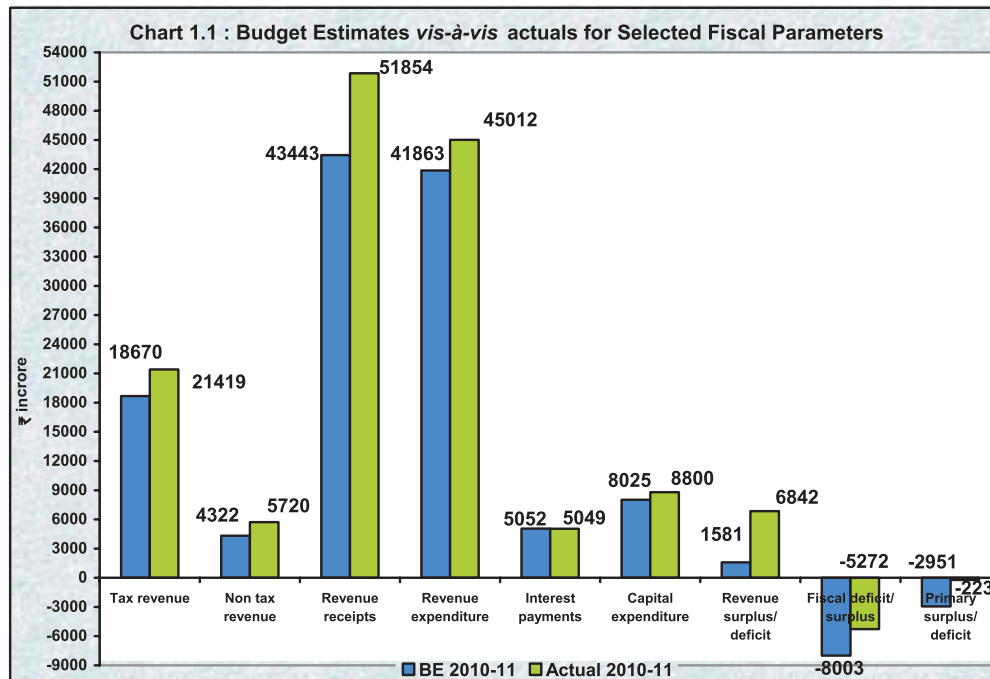
The State Government had achieved revenue surplus six years ahead of the scheduled period. The table above reveals that the fiscal deficit was within the amended limit of four *per cent* of GSDP prescribed in the FRBM targets and within three *per cent* prescribed by 13th Finance Commission and less than the four *per cent* of the projections of MTFPS. The total fiscal liabilities (including guarantees) to GSDP ratio at 29.67 *per cent* was within the FRBM target to be achieved by 31 March 2015 and was significantly less than the projected 39 *per cent* in MTFPS. The outstanding guarantees during the year were only 12.35 *per cent* of the revenue receipts of the preceding year.

The actual tax revenue and non-tax revenue and Non-Plan Revenue Expenditure (NPRE) was more than both the assessed levels of 13th Finance Commission and MTFPS (**Tables 1.6 and 1.8**).

1.4 Budget 2010-11

Actuals vis-à-vis budget estimates

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



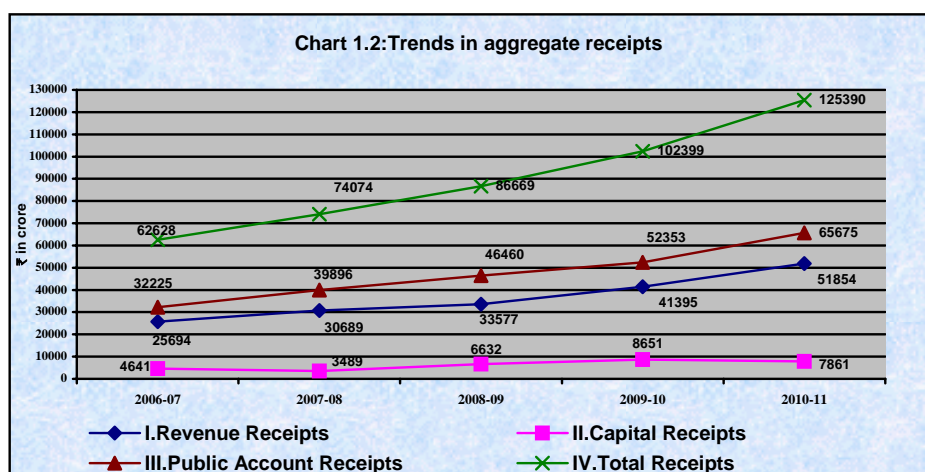
(Source: State Finance Accounts and Budget Estimates 2010-11)

The key fiscal indicator viz revenue surplus, fiscal deficit and primary deficit showed improvement with reference to the budget estimates (BEs). Interest payments were well within the BEs while revenue expenditure, capital expenditure and non-tax revenue were more than the BE. Tax revenue was more than the BE mainly due to more receipts under taxes on sales, trades etc. (₹ 937 crore), stamps duty and registration fees (₹ 614 crore) and taxes and duties on electricity (₹ 331 crore). Capital expenditure was more than the BE mainly due to more expenditure under Major Irrigation (₹ 329 crore) and Medium Irrigation (₹ 189 crore), partly offset by less expenditure under Minor Irrigation (₹ 228 crore) and Power Projects (₹ 33 crore).

1.5 Resources of the State

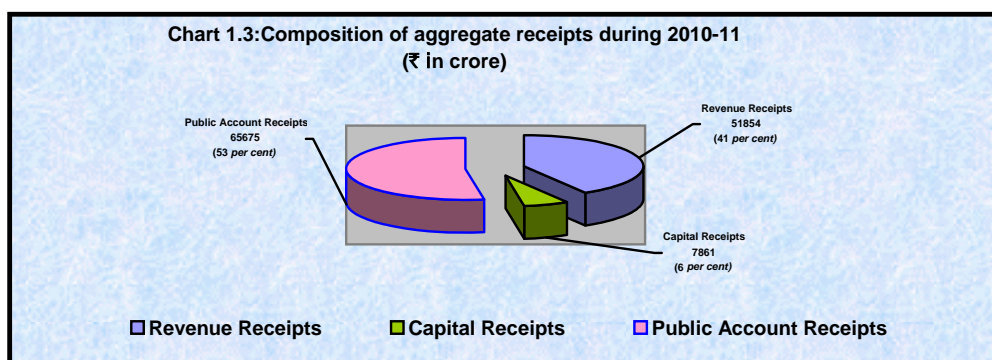
1.5.1 Resources of the State⁴ as per Annual Finance Accounts

Table-1.1 presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends of various components of the receipts of the State during 2006-11.



(Source: State Finance Accounts of the respective years)

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



(Source: State Finance Accounts of the respective years)

- The revenue, capital and public account receipts constituted 41, six and 53 per cent of the total receipts respectively during 2010-11. The total receipts of the State increased by 100 per cent during 2006-11, of

⁴ Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans and borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from the Public Account.

which revenue receipts and capital receipts increased by 102 per cent and 69 per cent.

- The relative share of revenue receipts in total receipts was 41 per cent from 2006-07 to 2010-11 except in 2008-09 which was 39 per cent and the share of capital receipts in total receipts decreased from 7.4 per cent in 2006-07 to six per cent in 2010-11.
- The decrease in public debt receipts from ₹ 8,603 crore (8.40 per cent) in 2009-10 to ₹ 7,458 crore (5.95 per cent) in 2010-11 was due to lesser borrowings in 2010-11.
- Although the receipts under the public account increased at an average annual growth rate of 20.76 per cent during the period 2006-11, their share in the total receipts of the State ranged between 51 per cent in 2006-07 to 52 per cent during 2010-11 with inter year variations.

1.5.2 Funds transferred to State implementing agencies outside the State budget

The Central Government transferred ₹ 9,002.13 crore during 2010-11 directly to State implementing agencies⁵ for implementation of various schemes/programmes in the social and economic sectors as against transfer of ₹ 8,153.52 crore during 2009-10. The fund transfers increased by 10.41 per cent during 2010-11.

As these funds were not routed through the State Budget/State treasury system, 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 understated. Details in respect of major central plan schemes are furnished in **Table 1.3**.

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

(₹ in crore)

Sl. No	Name of the Programme/ Scheme	Implementing Agency/ Department in the State	GOI releases 2010-11
1.	Mahatma Gandhi National Rural Employment Guarantee Scheme (90:10)	Madhya Pradesh State Employment Guarantee, Bhopal	2,565.77
2.	Pradhan Mantri Gram Sadak Yojana (PMGSY)	Madhya Pradesh Rural Roads Development Authority, Bhopal	1,674.49
3.	Sarva Shiksha Abhiyan (SSA) (65:35)	M.P. Sarva Shiksha Abhiyan Mission	1,767.83
4.	National Rural Health Mission (NRHM) Centrally Sponsored (85:15)	State Health Society, Bhopal	528.62
5.	National Rural Drinking Water Programme	SWSM, Madhya Pradesh, Bhopal	199.52
		Public Health Engineering Department, Bhopal	188.80

⁵ State implementing agencies include any organizations/institutions including non-governmental organizations which are authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State implementation society for Sarva Shiksha Abhiyan, State Health Mission for National Rural Health Mission etc.

Sl. No	Name of the Programme/ Scheme	Implementing Agency/ Department in the State	GOI releases 2010-11
6.	Rural Housing-IAY (75:25)	DRDA (All Districts)	254.43
		Khargone, PO-Mgnregs-MP	12.72
7.	Swarnjayanti Gram Swarozgar Yojana (SGSY) (75:25)	DRDA (All Districts)	127.75
		Madhya Pradesh State Sericulture Development and Trading Corporation Federation Limited	1.58
		Madhya Pradesh State Livelihood Forum	1.87
		School of Good Governance and Policy Analysis	2.81
		Khargone, PO-Mgnregs-MP	3.21
8.	Integrated Watershed Management Programme (IWMP)	DRDA (All Districts)	48.52
		SLNA, Madhya Pradesh	113.25
		Khargone, PO-Mgnregs-MP	1.36
9.	Central Rural Sanitation Scheme	SWSM Madhya Pradesh Bhopal	144.03
10.	Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	Madhya Pradesh Madhyamik Shiksha Abhiyan Samiti	196.19
11.	National Food Security Mission (100:0)	State Institute of Agriculture Extension and Training	160.73

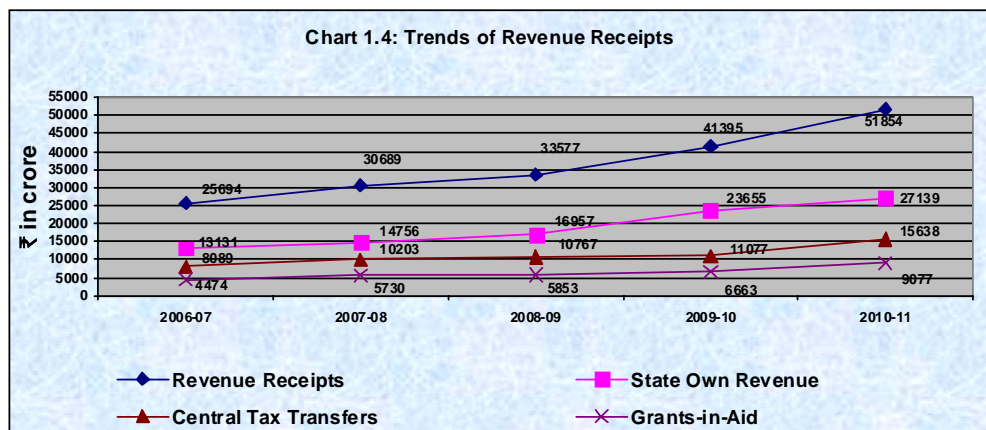
(Source: CPSM Cell of AG(A&E), Madhya Pradesh and State Finance Accounts for the year 2010-11)

Out of ₹ 9,002.13 crore, ₹ 43.21 crore was released to voluntary organisations/non-Government organisations (581 NGOs/VOs). Of these, 22 NGOs/VOs received an amount of ₹ 25 lakh or more each totaling ₹ 11.63 crore during the year (**Appendix-1.8**).

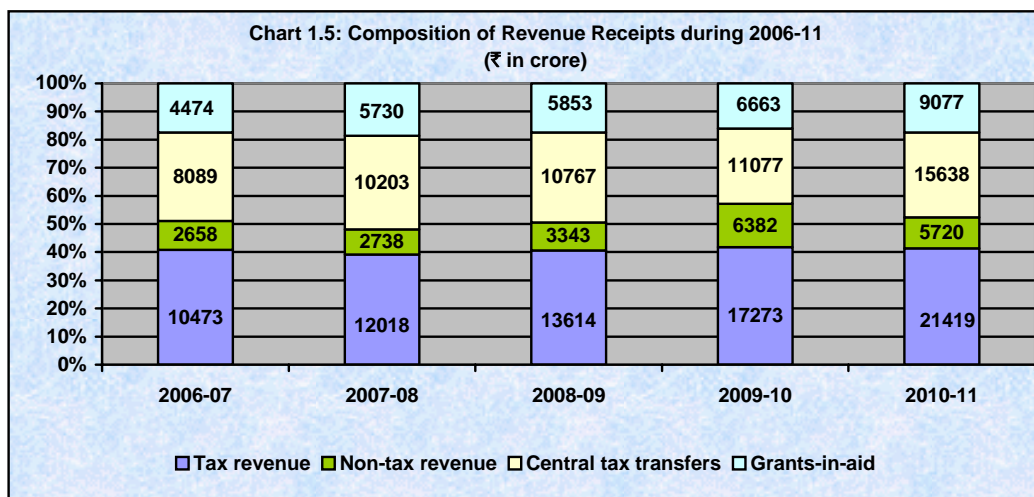
Direct transfer from the Union to the State implementing agencies runs the risk of poor oversight of utilisation of funds by these agencies. Unless uniform accounting practices are diligently followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

1.6 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2006-11 are presented in **Appendix 1.4** and also depicted in **Charts 1.4** and **1.5** respectively.



(Source: State Finance Accounts of the respective years)



(Source: State Finance Accounts of the respective years)

- The revenue receipts of the State consistently increased at an average annual growth rate of 20 per cent from ₹ 25,694 crore in 2006-07 to ₹ 51,854 crore in 2010-11. While 52 per cent of the revenue receipts during 2010-11 had come from the State's own resources comprising tax revenue (41 per cent) and non-tax revenue (11 per cent), the balance 48 per cent was contributed by central tax transfers and grants-in-aid together.
- The relative shares of the State's own tax and non-tax revenue exhibited a decreasing trend during 2006-08 and 2009-11 and an increasing trend during 2007-10, while that of central tax transfers and grants-in-aid showed an increasing trend during 2006-08 and 2009-11 and a decreasing trend during 2007-10.
- Of the total increase of ₹ 10,459 crore in the revenue receipts of the State during 2010-11, ₹ 6,975 crore (67 per cent) was contributed by central transfers and the remaining ₹ 3,484 crore (33 per cent) by the State's own resources. The trends of revenue receipts relative to GSDP are presented in **Table 1.4** below:

Table 1.4: Trends of revenue receipts relative to GSDP

	(₹ in crore)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue receipts (RR)	25,694	30,689	33,577	41,395	51,854
Rate of growth of RR (per cent)	24.75	19.44	9.41	23.28	25.27
RR/GSDP (per cent)	17.77	19.00	17.08	18.23	19.09
Buoyancy Ratios⁶					
Revenue buoyancy with reference to GSDP	1.51	1.66	0.43	1.50	1.29
State's Own Tax Buoyancy with reference to GSDP	0.91	1.26	0.61	1.73	1.22

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

⁶ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one per cent.

The revenue receipts relative to GSDP increased consistently from 17.77 *per cent* in 2006-07 to 19.09 *per cent* in 2010-11 except in 2008-09 when it decreased to 17.08 *per cent* which indicated the adequacy and accessibility of the State to resources.

The revenue as well as the State's own tax buoyancies decreased in 2010-11 as compared to the previous year, primarily on account of less growth of State's own taxes during the current year.

1.6.1 State's Own Resources

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

The gross collection in respect of major taxes and duties as well as the components of non-tax receipts *vis-à-vis* budget estimates, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2006-07 to 2010-11 along with the respective all-India average are presented in **Appendix 1.6**.

During 2010-11, the gross collection was more than the Budget Estimate in respect of state excise, stamp duty and registration fee and non-ferrous mining and metallurgical industries and less than the Budget Estimate in respect of forestry and wild life under the minor head-State trading in timber.

Tax Revenue

- Taxes on sales, trades etc. were the major contributors (48 *per cent*) of the State's own tax revenue followed by state excise (17 *per cent*), stamps and registration fees (12 *per cent*), taxes on goods and passengers (eight *per cent*) and taxes on vehicles (six *per cent*) during 2010-11.
- There was a growth of 33 *per cent* in taxes on sales, trades etc., 22 *per cent* in state excise, 41 *per cent* in stamps and registration fees, 30 *per cent* in taxes on vehicles and 101 *per cent* on land revenue and a decline of 31 *per cent* in taxes and duties on electricity in 2010-11 over the previous year.
- The increase in receipts under taxes on sales, trades etc. (₹ 2,533 crore) was due to increase in receipts under the State Sales Tax Act- Turnover Tax. The increase in state excise receipts was mainly due to increase in receipt under sale of country spirits (₹ 797 crore). The increase under stamps and registration fees was mainly due to increase in receipt of fees for registering documents (₹ 1,060 crore). The increase in receipts under taxes on vehicles was due to increase in receipt of ₹ 324 crore under State motor vehicles taxation act-life time tax and tax on passenger vehicles. The increase under land revenue was mainly due to increase in receipt of land revenue tax (₹ 165 crore). The increase of ₹ 413 crore under taxes on goods and passengers was mainly due to

increase in receipt under tax on entry of goods into local areas (₹ 265 crore). The decrease under taxes and duties on electricity (₹ 670 crore) was due to less receipt under taxes on consumption and sale of electricity (₹ 538 crore).

Table-1.5 below shows the trends of the composition of tax revenue of the State during 2006-11:

Table 1.5: Tax Revenue

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Taxes on Sales, Trades etc	5,261	6,045	6,843	7,724	10,257
State Excise	1,547	1,854	2,302	2,952	3,603
Stamps and Registration fees	1,251	1,532	1,479	1,783	2,514
Taxes on Vehicles	634	703	773	919	1,198
Land Revenue	132	129	339	180	361
Taxes on goods and passengers	745	916	1,333	1,333	1,746
Other Taxes	903	839	545	2,382	1,740*
Total	10,473	12,018	13,614	17,273	21,419

* Other taxes include taxes and duties on electricity (₹ 1,476 crore), other taxes on income and expenditure (₹ 218 crore), other taxes and duties on commodities and services (₹ 30 crore) and hotel receipt tax (₹ 16 crore).

(Source: State Finance Accounts of the respective years)

Non-Tax Revenue

- Non-tax revenue decreased by ₹ 662 crore from ₹ 6,382 crore in 2009-10 to ₹ 5,720 crore in 2010-11, mainly due to decrease in receipts under Interest Receipts (₹ 985 crore), Power (₹ 685 crore) and Miscellaneous General Services (₹ 256 crore), partly offset by increase in Non-Ferrous Mining and Metallurgical Industries (₹ 531 crore) and Education, Sports, Art and Culture (₹ 449 crore).
- Major contributors of the non-tax revenue during 2010-11 were Non-Ferrous Mining and Metallurgical Industries (37 per cent), Power (seven per cent), Forestry and Wildlife (15 per cent), Education, Sports, Art and Culture (21 per cent) and interest receipts, dividend and profits (six per cent) and Miscellaneous General Services (seven per cent).
- It has been observed that during 2001-10, the Compound Annual Growth Rate (CAGR) in case of Madhya Pradesh was higher than that of General Category States (**Appendix-1.1**).

The actual receipts under the State's tax revenue and non-tax revenue *vis-à-vis* assessments made by 13th Finance Commission and the State Government during 2010-11 are given in **Table 1.6** below:

Table 1.6: Tax and Non-Tax Revenue**(₹ in crore)**

	Assessments made by 13 th Finance Commission	Projections by State Government in MTFPS	Actuals
Tax Revenue	17,757	18,670	21,419
Non-Tax Revenue	4,672	4,322	5,720

(Source: State Finance Accounts of the respective year and Statement laid before the legislature under F.R.B.M. Act during 2010-11 and 13th Finance Commission recommendation 2010-15)

Actual realization under tax revenue and non-tax revenue was higher than the assessment made by 13th Finance Commission (20.62 and 22.43 *per cent*) and MTFPS projection (14.72 and 32.35 *per cent*). The increase in non-tax revenue with respect to MTFPS was due to increase in receipts of Mining and Education, Sports, Art and Culture departments.

Recovery of cost of Operations and Maintenance expenses

The current levels of cost recovery of operations and maintenance (O&M) expenses (ratio of non-tax revenue receipts to O&M expenses) were 2.27 for education, sports, art and culture; 0.65 for health and family welfare; 0.06 for water supply, sanitation, housing and urban development; 94.90 for agriculture and allied activities; 0.02 for transport; 7.22 for irrigation and flood control and 36.38 for power. This indicated that O&M expenses on water supply, sanitation, housing and urban development and transport sectors were more than the non-tax revenue in these sectors. The cost of O&M charges in respect of major components incurred in non-tax revenue is given in **Appendix 1.7**. The State Government should increase the non-tax revenue receipts and curtail the O&M expenses in respect of water supply, sanitation, housing and urban development and transport sectors.

1.6.2 Loss of revenue due to evasion of taxes, write off/waivers

Test check of the records of 398 units of commercial tax, state excise, motor vehicles, forest and other departmental offices conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue aggregating ₹ 1,879.11 crore in 4,36,826 cases. During the course of the year, departments accepted underassessment and other deficiencies of ₹ 993.70 crore involved in 4,15,652 cases which were pointed out in audit during 2010-11. The departments collected ₹ 70.50 crore in 31,204 cases during 2010-11.

As intimated by the Sales Tax, State Excise and Stamps Duty and registration fees departments, 9020 cases (₹ 281.67 crore) of evasion and 2423 refund cases (₹ 14.12 crore) were pending at the end of March 2011.

The position of evasion of taxes and the number of refund cases pending at the end of the year 2010-11 in respect of other departments had not been furnished by the Government (September 2011).

1.6.3 Revenue Arrears

Department-wise status of arrears of revenue during 2010-11 is given in **Table 1.7:**

Table 1.7: Department-wise status of arrears of revenue during 2010-11

(₹ in crore)

Sl. No.	Department	Arrears of revenue	Arrears of revenue for more than five years
1.	State Excise	66.03	56.96
2.	Electricity	70.67	15.12
3.	Mining	12.38	12.38
4.	Co-operation	127.30	119.33
5.	Entertainment Tax	0.80	0.58
6.	Commercial Tax	529.80	450.00
7.	Stamps Duty and Registration Fee	69.88	31.01
	Total	876.86	685.38

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

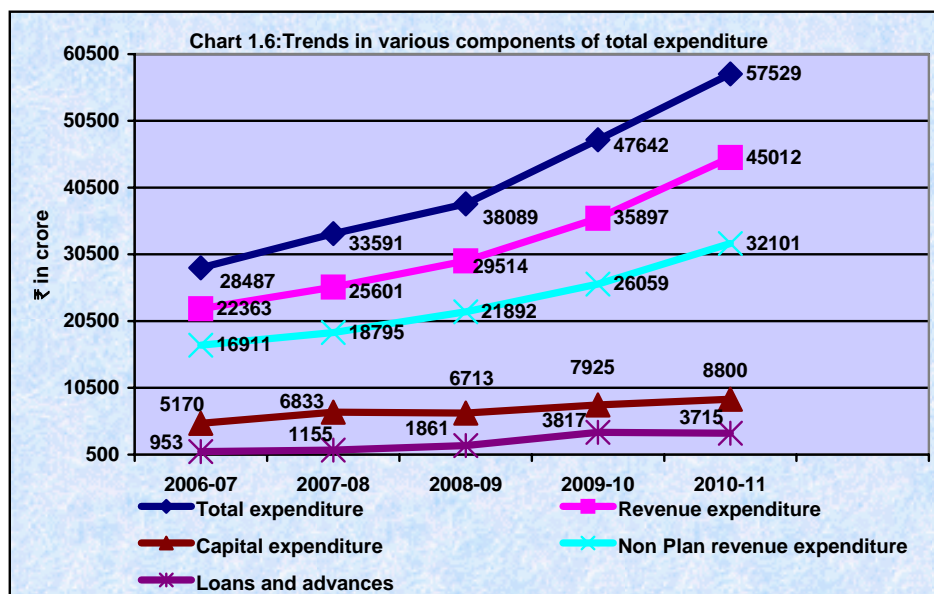
Arrears of revenue as on 31 March 2011 in respect of seven departments amounted to ₹ 877 crore, of which ₹ 685 crore was outstanding for more than five years. It excluded arrears of revenue in respect of Taxes on Vehicles as the same was not furnished by the concerned department (September 2011). Also, the stages at which arrear collection was pending were not furnished by the department (September 2011).

1.7 Application of Resources

Analysis of the allocation of expenditure at the State Government's level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors. The trends in fiscal indicators (Time series data) are given in **Appendix-1.4.**

1.7.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2006-11). Its composition, both in terms of 'economic classification' and 'expenditure by activities', is depicted respectively in **Charts 1.7 and 1.8.**



(Source:-State Finance Accounts of the respective years)

The total expenditure of the State increased from ₹ 28,487 crore to ₹ 57,529 crore at an annual average growth rate of 20.39 per cent per annum during 2006-11. The capital and revenue expenditure components increased by ₹ 3,630 crore (70 per cent) and ₹ 22,649 crore (101 per cent) respectively during the period 2006-11. These trends indicated that the increase in capital and revenue expenditure was in the ratio of 1:6 during the five year period.

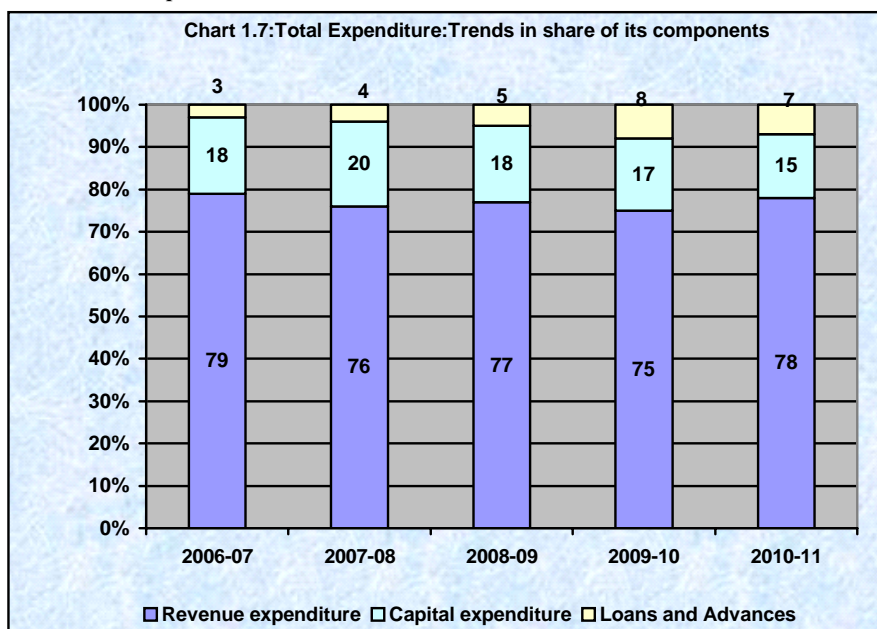
The ratio of revenue expenditure to total expenditure decreased from 79 per cent in 2006-07 to 78 per cent in 2010-11 with inter year fluctuation and continued to share the dominant portion of the total expenditure of the State Government. The capital expenditure relative to total expenditure correspondingly decreased from 18 per cent in 2006-07 to 15 per cent in 2010-11 with inter-year fluctuations. In terms of Plan and Non-Plan expenditure, the Plan expenditure increased by ₹ 4,778 crore and Non-Plan expenditure registered a growth of ₹ 5,109 crore over the last year.

The significant increase of ₹ 9,887 crore in total expenditure (21 per cent) during 2010-11 over 2009-10 was mainly due to increase of ₹ 9,115 crore (25 per cent) in revenue expenditure and ₹ 875 crore in capital expenditure, partly offset by decrease of ₹ 103 crore in disbursement of loans and advances including Inter-State Settlement. The increase in capital expenditure was mainly due to increase in capital outlay on Major Irrigation (₹ 629 crore), Medium Irrigation (₹ 273 crore), Minor Irrigation (₹ 291 crore), and Water Supply, Sanitation, Housing and Urban Development (₹ 80 crore) which was partly offset by decrease under Energy (₹ 1,567 crore).

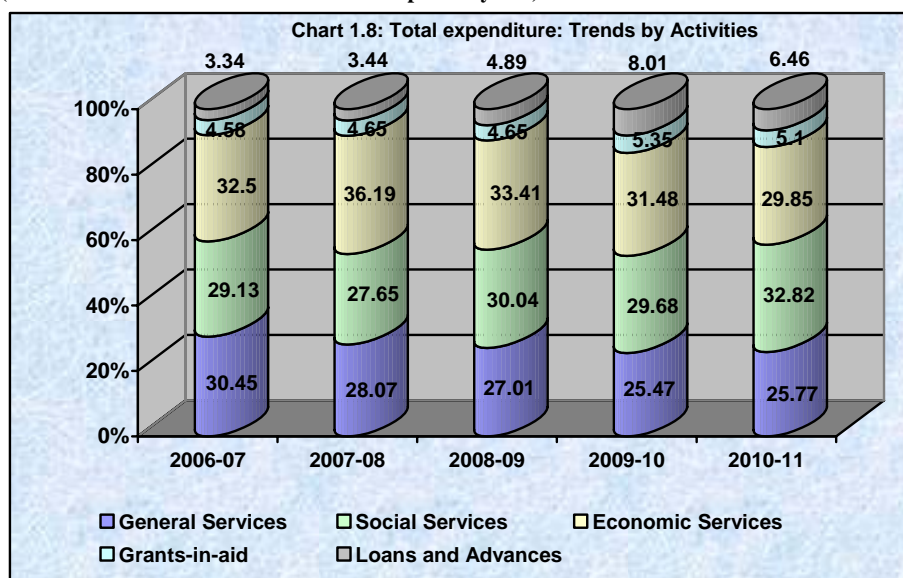
The decreasing trend of the fiscal liabilities to revenue receipts ratio during the period 2006-11 indicated increasing reliance on revenue receipts to finance the total expenditure and decreasing dependence on borrowed funds.

In 2010-11, revenue receipts as a ratio of total expenditure stood at 90 per cent which meant that 90 per cent of the total expenditure could be met out of revenue receipts.

During the period 2006-11, the growth rate of total expenditure was at the highest (25 per cent) in 2009-10 and lowest (two per cent) in 2006-07. The growth rate of total expenditure which was at 25 per cent in 2009-10 decreased to 21 per cent in 2010-11.



(Source: State Finance Accounts of the respective years)



(Source: State Finance Accounts of the respective years)

The share of revenue expenditure in total expenditure showed a decreasing trend during 2006-08 and 2008-10 and increased in 2008-09 and 2010-11. The share of loans and advances in total expenditure showed an increasing trend during 2006-10, but a decreasing trend during 2010-11 while that of capital expenditure showed a decreasing trend with inter-year variations during 2006-11. It was observed that a major portion of the total capital expenditure was Plan capital expenditure during the period. During 2010-11, 98.38 *per cent* of the total capital expenditure was Plan capital expenditure (₹ 8,657 crore) which increased by ₹ 793 crore from the level of ₹ 7,864 crore in 2009-10.

The share of General Services (including Interest Payments), considered as non-developmental expenditure declined marginally from 30.45 *per cent* to 25.77 *per cent* over the period 2006-10 with marginal increase in 2010-11, while the share of Social Services increased by 3.69 *per cent* over the period 2006-11. The share of Economic Services indicated a significant decrease from 32.5 *per cent* in 2006-07 to 29.85 *per cent* in 2010-11, with wide inter-year fluctuations. The development expenditure comprising Social and Economic Services together decreased from 61.16 *per cent* in 2009-10 to 62.67 *per cent* in 2010-11. The share of grants-in-aid and loans and advances showed increasing trends during the period 2006-10, but decreased during 2010-11.

Trends in the growth of revenue expenditure

The overall revenue expenditure of the State increased from ₹ 22,363 crore in 2006-07 to ₹ 45,012 crore in 2010-11, showing an increase of 101 *per cent* over the period. Out of the total increase of revenue expenditure of ₹ 9,115 crore (25.39 *per cent*) during 2010-11, NPRE amounted to ₹ 6,042 crore (23 *per cent*) while ₹ 3,073 crore (31 *per cent*) was incurred under Plan Revenue heads. The increase in NPRE during the current year was mainly due to increase in expenditure on General Education (₹ 1,099 crore), Pension and other retirement benefits (₹ 689 crore), Compensation and assignment to local bodies and Panchayati Raj Institutions(₹ 188 crore), State Excise (₹ 156 crore), Police (₹ 353 crore), Interest Payment (₹ 595 crore), Medical and Public Health (₹ 315 crore), Other Rural Development Programmes (₹ 386 crore) and Forestry and Wild life (₹ 148 crore). The actual NPRE *vis-à-vis* the assessment made by 13th Finance Commission and the State government are given in **Table 1.8**.

Table 1.8: Trends in the growth of revenue expenditure

(₹ in crore)

Year	Assessments made by 13 th Finance Commission	Assessments made by State Government in MTFPS	Actual NPRE
	(1)	(2)	(3)
2010-11	25,074	29,213	32,101

(Source: State Finance Accounts of the respective year and 13th Finance Commission Recommendations and Statement laid under F.R.B.M. Act)

The actual NPPE at ₹ 32,101 crore in 2010-11 was more than the normatively assessed level of 13th Finance Commission (28.02 *per cent*) and the projection made by the State Government in its MTFPS (9.89 *per cent*). Relative to the assessment made by 13th Finance Commission, the increase was mainly under General Services excluding interest payments (₹ 336 crore), Social Services (₹ 7,643 crore) and Economic Services (₹ 4,048 crore), partly offset by decrease under interest payments (₹ 308 crore).

The Plan revenue expenditure (PRE), which consistently increased during the period 2006-11, increased by 31.23 *per cent* during the current year. The increase in PRE in 2010-11 was mainly under General Education (₹ 879 crore), Medical and Public Health (₹ 88 crore), Social, Security and Welfare (₹ 242 crore), Crop Husbandry (₹ 329 crore), Welfare of SC, ST and OBC (₹ 252 crore), which was partly offset by a decrease in expenditure under Other Rural Development Programme (₹ 254 crore).

1.7.2 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 1.9** and **Chart 1.9** present the trends of expenditure on these components during 2006-11.

Table-1.9: Components of Committed Expenditure

(₹ in crore)

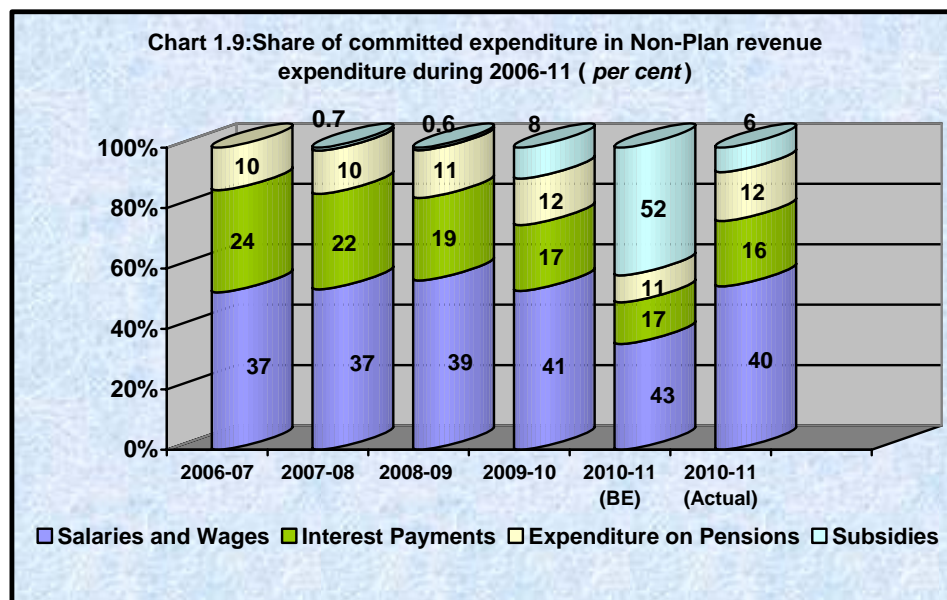
Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Salaries and Wages, of which	6,337 (24.66)	6,984 (22.76)	8,547 (25.45)	10,678 (25.80)	12,517 (28.81)	13,100 (25.26)
Non-Plan Head	5,639	6,221	7,660	9,406	12,517	11,490
Plan Head**	698	763	887	1,272	--	1,610
Interest Payments	4,029 (15.68)	4,191 (13.66)	4,192 (12.48)	4,454 (10.76)	5,052 (11.63)	5,049 (9.74)
Expenditure on Pensions	1,752 (7)	1,964 (6)	2,433 (7)	3,077 (7)	3,305 (7.61)	3,767 (7.26)
Subsidies	NA	141 [@] (0.46)	132 [@] (0.39)	2,033 [@] (4.91)	15,145 (34.86)	1,810 (3.49)
Total	12,118 (47)	13,280 (43)	15,304 (46)	20,242 (49)	36,019 (83)	23,726 (46)

Figures in parentheses indicate percentage of Revenue Receipts

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

@ *To the extent information is available in the Finance Accounts*

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



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

The overall committed expenditure increased by 96 per cent during 2006-11. Committed expenditure during 2010-11 constituted 74 per cent of the NPRE. As a percentage of revenue receipts, it showed a decreasing trend during 2006-08 and 2009-11 and increasing trend during 2007-10. During 2010-11, it constituted 46 per cent of the revenue receipts and was less than the previous year and the Budget projections. The component-wise analysis is given as under:

Salaries and wages

The expenditure on salaries and wages increased by 106 per cent from ₹ 6,337 crore in 2006-07 to ₹ 13,100 crore in 2010-11. Expenditure on salaries and wages as a percentage of revenue receipts showed a decreasing trend during 2006-08 and 2009-11 and increasing trend during 2007-10. There was an increase of 22 per cent in expenditure on salaries and wages under the Non-Plan head during 2010-11 over the previous year. Actual expenditure on salaries and wages of ₹ 13,100 crore in 2010-11 was more than the projections in MTFPS (₹ 12,517 crore). The salary bill relative to revenue expenditure, net of interest payments and pensions at 36 per cent was against the norm of 35 per cent recommended by 13th Finance Commission.

Pension Payments

Pension payments increased by 22 per cent from ₹ 3,077 crore during 2009-10 to ₹ 3,767 crore during 2010-11 mainly on account of increase under superannuation and retirement allowances (₹ 281 crore), family pension (₹ 45 crore), leave encashment (₹ 76 crore) and gratuity (₹ 253 crore). Actual pension payment at ₹ 3,767 crore in 2010-11 was (13.98 per cent) more than ₹ 3,305 crore as projected in MTFPS and (28.44 per cent) more than ₹ 2,933 crore as projected by 13th Finance Commission.

Interest payments

- Interest payments of ₹ 5,049 crore during 2010-11 accounted for 9.74 per cent of the revenue receipts and constituted 11.22 per cent of revenue expenditure during 2010-11. Interest payments during the year were on special securities issued to National Small Saving Fund (NSSF) of the Central Government (₹ 1,426 crore), market loans (₹ 1,804 crore), loans borrowed from the Central Government (₹ 690 crore), State Provident Fund (₹ 591 crore) and other internal debt (₹ 332 crore).
- The increase of ₹ 595 crore in interest payment during 2010-11 over the previous year was the result of increase mainly under market loans (₹ 316 crore), State provident fund (₹ 42 crore), other obligations (₹ 199 crore), and interest on special securities issued to NSSF of Central Government (₹ 45 crore), partly offset by a decrease under loans from the Central Government for State /Union Territory Plan Scheme (₹ 396 crore).
- Interest payments of ₹ 5,049 crore paid during the year were less than the BE of ₹ 5,052 crore but more than the projection (₹ 3,949 crore) made by 13th Finance Commission for 2010-11.

Subsidies

Subsidy payment of ₹ 1,810 crore (Non plan: ₹ 1,581 crore and Plan: ₹ 229 crore) accounted for 3.49 per cent of the revenue receipts and constituted 4.02 per cent of the revenue expenditure during 2010-11. The details of subsidies in Non- Plan and Plan revenue expenditure are presented below in **Table 1.10**.

Table 1.10: Details of subsidies payment during 2009-10 and 2010-11

(₹ in crore)

Sl. No.	Department	Description and Head of Account	2009-10			2010-11		
			Non Plan	Plan (including CSS and CP)	Total	Non Plan	Plan (including CSS and CP)	Total
1.	2.	3.	4.	5.	6.	7.	8.	9.
1	Social Welfare	2235-Social Security and Welfare	--	--	--	--	0.70	0.70
2	Farmers Welfare and Agriculture Development	2401-Crop Husbandry	--	91.19	91.19	3.00	128.21	131.21
3	Tribal Area Sub Plan	2401-Crop Husbandry	--	36.90	36.90	--	41.71	41.71
4	Scheduled Castes Sub Plan	2401-Crop Husbandry	--	25.63	25.63	--	31.09	31.09
5	Externally Aided Project pertaining to Finance Department	2401-Crop Husbandry	--	13.80	13.80	--	12.26	12.26

6	Food	2408-Food Storage and Warehousing	58.85	--	58.85	49.05	--	49.05
7	Co-operation	2425-Co-operation	--	--		2.56	--	2.56
8	Expenditure pertaining to District Plan Scheme	2515-Other Rural Development Programmes	--	--		6.85	--	6.85
9	Energy	2801-Power	1,734.52	72.00	1,806.52	1,519.86	15.00	1,534.86
	Total		1,793.37	239.52	2,032.89	1,581.32	228.97	1,810.29⁷

(Source: State Finance Accounts 2010-11)

Out of the total subsidies of ₹ 1,810 crore, ₹ 1,535 crore (85 per cent) were mainly for Energy Department. The decrease in amount of subsidy during 2010-11 over previous year was mainly due to decrease in subsidy of Energy Department (₹ 272 crore).

1.7.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.11**:

Table 1.11: Financial Assistance to Local Bodies etc.

Financial Assistance to institutions	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities)	235.09	166.76	161.99	118.85	233.23	221.19
Municipal Corporations and Municipalities	1,499.61	1,872.65	1,880.40	2,654.32	3,709.83	3,153.82
Zila Parishad and Other Panchayati Raj Institutions	736.45	885.87	756.21	926.64	1,760.55	1,760.12
Development Agencies	5.91	6.81	13.00	6.17	8.61	6.78
Hospital and other charitable Institutions	6.49	7.29	7.29	25.18	9.62	9.62
Other Institutions	470.46	603.38	965.00	775.27	1,065.60	1,049.80 ⁸
Total	2,954.01	3,542.76	3,783.89	4,506.43	6,787.44	6,201.33
Assistance as per percentage of Revenue Expenditure	13.20	13.84	12.82	12.55	16.21	13.78

(Source: Information collected from various departments)

⁷ To the extent information available in Finance Accounts. Does not include implicit subsidies as details thereof were not available

⁸ Includes mainly Food, Civil Supply and Consumer Protection (₹ 679.49 crore), Co-operatives and Co-operative Societies (₹ 189.53 crore), Farmers Welfare and Agriculture Development (₹ 63.91 crore), Handlooms (₹ 38.17 crore), Town and Country Planning (₹ 18.71 crore), Culture (₹ 16.70 crore), M.P. Science and Technology (₹ 16.10 crore), Sports Youth Welfare (₹ 2.40 crore), Environment Planning and Co-ordination organization (₹ 4.62 crore), Other Backward Classes & Minority welfare (₹ 2.56 crore), Women & Child Development (₹ 2.65 crore) and Others (₹ 14.96 crore).

Financial assistance to local bodies and institutions increased by ₹ 1,694.90 crore from ₹ 4,506.43 crore in 2009-10 to ₹ 6,201.33 crore in 2010-11. The increase was mainly under Municipal Corporations (₹ 499.50 crore), Zila Parishads and Other Panchayati Raj Institutions (₹ 833.48 crore) and Educational Institutions (₹ 102.34 crore) which was partly offset by decrease of ₹ 15.56 crore under Hospital and other Charitable institutions.

The increase of ₹ 499.50 crore under Municipal Corporations, ₹ 833.48 crore under Zila Parishads and other Panchayati Raj institutions and ₹ 102.34 crore under Educational Institutions was mainly in respect of the increase in basic facilities i.e. drinking water, road repairs and integrated development of urban areas and slum colonies.

As against the BE of ₹ 6,787.44 crore, a sum of ₹ 6,201.33 crore was provided as assistance to various institutions during the year. Decrease in expenditure compared to the BE in 2010-11 was observed mainly in respect of Municipal Corporations and Municipalities, Educational Institutions (Aided Schools, Colleges and Universities) and other institutions due to 10 *per cent* economic cut imposed by the Finance Department.

The assistance as a percentage of revenue expenditure increased from 12.55 *per cent* (2009-10) to 13.78 *per cent*, which was less than BE of 16.21 *per cent* during 2010-11.

1.7.4 Release and utilisation of Thirteenth Finance Commission grants to local bodies, etc.

Local Bodies

13th Finance Commission recommended grants-in-aid to Local Bodies (LBs) for both General Areas and Special Areas for the award period 2010-15. In addition to these grants, a performance grant would be available to both areas from 2011-12 to the States who met the conditions imposed for their release. As per Government of India (GOI) guidelines (September 2010), all local body grants are to be released in two tranches, in July and January every fiscal year. First instalment of LBs grant was to be transferred to LBs within 15 days of its receipt from the GOI. Similarly, the second instalment of the grant was also to be transferred to LBs within five days and ten days according to the infrastructural accessibility. For delay in transfer of grant beyond the specified period, the State was liable for payment of interest at the RBI bank rate to LBs along with the instalment.

Delay in transfer of grant

Records of test checked offices⁹ revealed (August 2011) that the first

⁹ *Finance Department (FD), Government of Madhya Pradesh, Commissioner, Panchayati Raj (PR), Commissioner, Urban Administration and Development Department (UADD), Chief Executive Officer (CEO), Zila Panchayat (ZP) Bhopal, CEO, Janpad Panchayat (JP) Fanda, Bairasia (Bhopal)*

instalment (₹ 191.55 crore) of General Basic Grant (GBG) and also that of ₹ 11.28 crore of Special Area Basic Grant (SABG) was transferred to Gram Panchayats (GPs) and CEO, ZP Bhopal with a delay of 45-239 days. The Commissioner, UADD transferred the first instalment of GBG and SABG to ULBs with a delay of 27 days. The second instalment of SABG was too transferred to ULBs with the delay of 16 days. Apart from the delay in transfer of funds, the Finance Department was liable to pay interest of ₹ 3.30 crore at RBI rates.

On being pointed out (August 2011) by the audit, the FD did not furnish reasons for such delays. The reply from Commissioner, PR and Commissioner, UADD was also awaited (September 2011).

Lapse of grant

Records of office of the Commissioner, PR and Commissioner, UADD, MP Bhopal revealed (August 2011) that the MoF, released ₹ 26.50 crore in two equal instalment towards Special Area Basic Grant (SABG) to PRIs and ULBs for the year 2010-11. Out of these, ₹ 21.88 crore (₹ 19.91 crore by the Commissioner, PR and ₹ 1.97 crore by the Commissioner, UADD) was drawn from the treasury for transfer to Rural and Urban Local Bodies respectively during the year 2010-11. The remaining amount (₹ 4.62 crore) lapsed.

Irregular drawal of grant

The Rule 70 of Madhya Pradesh Finance Code Vol-I provides that a sanction for any fresh charge which has not been acted on for a year must be held to have lapsed, unless it is specifically renewed.

Records of office of the Commissioner, UADD, MP Bhopal revealed (August 2011) that MoF released (March 2011) second instalment of ₹ 13.25 crore towards SABG to PRIs and ULBs for the year 2010-11. Out of this, ₹ 1.97 crore was allocated to the Commissioner, UADD who drew ₹ 1.57 crore in next financial year (April 2011) instead of drawing it in the financial year (2010-11). This was a violation of the financial rules and budgetary control system as well. The Government did not furnish any reasons for such a financial irregularity.

Non-submission of utilization certificate to the Government of India

Records of the test checked units revealed (August 2011) that the actual utilization of grants transferred to GPs and ULBs ₹ 542.34 crore (₹ 402.95 crore by Commissioner, PR and ₹ 139.39 crore by Commissioner, UADD) for the year 2010-11 was not reported to the GOI by the Commissioner, PR and Commissioner, UADD, MP, Bhopal through the FD. It was also observed that none of the test checked unit reported utilization of 13th Finance Commission grants received by them for the financial year.

On being pointed out (August 2011) by the audit, the Commissioner, UADD, MP, Bhopal replied that activity-wise break-up of grant spent by the ULBs are being collected. Replies from the FD and Commissioner, PR were not received (September 2011).

Food and Civil Supplies Department

In pursuance of the recommendations of 13th Finance Commission, Ministry of Finance, Department of Expenditure, GOI sanctioned ₹ 24.97 crore as grants-in-aid for incentivising people below the poverty line to register for Unique Identification (UID) to Government of Madhya Pradesh during the year 2010-11. Test check of the records of the office of the Commissioner, Food and Civil supplies, M.P. Bhopal, revealed (July 2011) that an amount of ₹ 24.97 crore was released and credited to Personal Deposit Account of Commissioner, but no expenditure was incurred during 2010-11. On being pointed out in audit, the department replied that the work is in progress. As per guidelines issued by GOI for release of grants, the grants released should be utilized in a particular year. Thus, ₹ 24.97 crore remained unutilized. The matter was referred to the Government (September 2011), their reply was not received (September 2011).

1.8 Quality of Expenditure

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

1.8.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.12** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2010-11 (First year of the 13th Finance Commission's award period).

Table-1.12 Fiscal Priority of the State in 2007-08 and 2010-11**(In per cent)**

Fiscal Priority by the State*	AE/ GSDP	DE [#] / AE	SSE/ AE	CE/AE	Expenditure on Education/ AE	Expenditure on Health/ AE
General Category States Average (Ratio) 2007-08	16.85	64.28	32.54	16.14	14.64	3.98
Madhya Pradesh Average (Ratio) 2007-08	20.80	66.51	28.65	20.34	11.66	3.72
General Category States Average (Ratio) 2010-11	16.65	64.42	36.75	13.27	17.42	4.35
Madhya Pradesh Average (Ratio) 2010-11	21.17	69.08	33.15	15.30	14.88	3.74
*As per cent to GSDP 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, Information was collected from the State's Directorate of Economics and Statistics)						

Comparative analysis revealed :

- Madhya Pradesh spent marginally higher proportion of its GSDP on Aggregate Expenditure during 2007-08 and 2010-11 as compared to general category states.
- Development expenditure as a proportion of Aggregate Expenditure in Madhya Pradesh has also been higher than the general category states average. Developmental expenditure consists of both economic service expenditure and social sector expenditure. However, social sector expenditure (as a proportion of Aggregate Expenditure) in Madhya Pradesh has been lower than that of the average of general category state. Inadequate priority has been given to health as well as to education sector. It has been observed that smaller proportion of expenditure was made on these two sectors in the current year.
- In Madhya Pradesh, expenditure on capital has been given adequate priority as compared to general category states. Increased priority to physical capital formation will further increase the growth prospects of the state by creating durable assets.

1.8.2 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 goods¹⁰. Apart from improving the allocation towards development expenditure¹¹, particularly in view of the fiscal space being created on account of the decline in debt servicing in the recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure being spent on operation and maintenance of the existing Social and Economic Services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. The **Table 1.13** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and the previous years.

Table-1.13: Development expenditure

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Development Expenditure (a to c)	18,314 (64)	22,339 (66)	25,999 (68)	32,910 (69)	33,956 (66)	39,741 (69)
a. Development Revenue Expenditure	12,457 (44)	14,683 (44)	17,577 (46)	21,333 (45)	24,579 (48)	27,430 (48)
b. Development Capital Expenditure	5,099 (18)	6,759 (20)	6,588 (17)	7,805 (16)	7,859 (15)	8,621 (15)
c. Development Loans and Advances	758 (3)	897 (3)	1,834 (5)	3,772 (8)	1,518 (3)	3,690 (6)

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

Table 1.13 presents trends in respect of development expenditure to total expenditure of the State during the period 2006-11, which ranged between 64 and 69 *per cent* during 2006-11. The share of development revenue expenditure showed an increasing trend since 2007-08. The development loans and advances and capital expenditure declined by two and one *per cent* respectively in 2010-11 as compared to previous year. The decrease in the share of development loans and advances and capital expenditure was under Social and Economic Services. The increase in the share of development

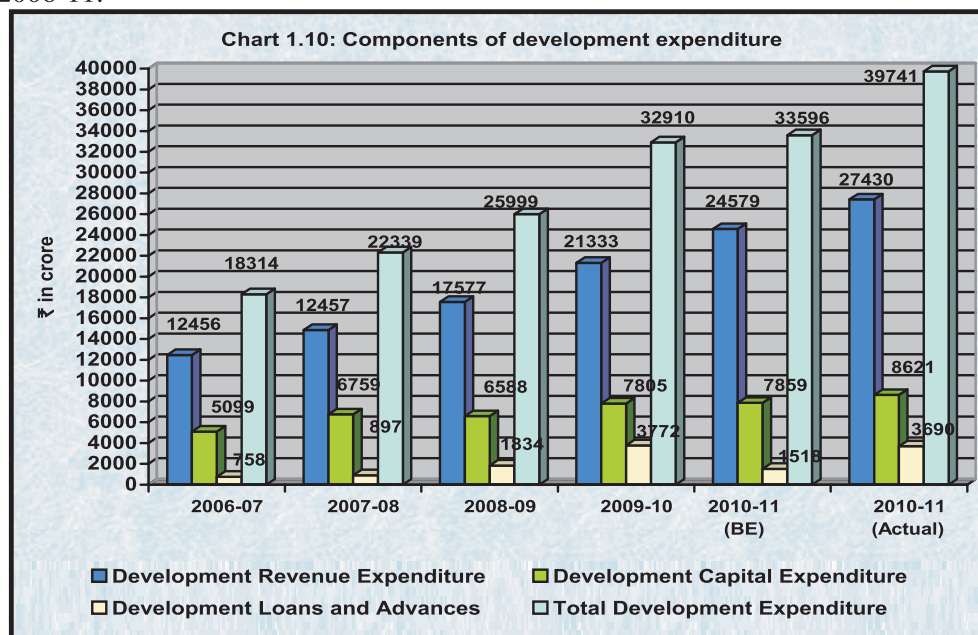
¹⁰ Core public goods are goods which all citizens enjoy in common, in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of those goods, e.g. enforcement of law and order, security and protection of our rights, pollution free air and other environmental goods and road infrastructure etc.

Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than the ability and willingness to pay the Government and therefore, wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

¹¹ 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.

revenue expenditure during 2010-11 over the previous year was under Economic and Social Services. The development revenue expenditure was same as compared to the BE during 2010-11.

Chart 1.10 presents component-wise development expenditure during 2006-11.



(Source: State Finance Accounts of the respective years)

Table 1.14 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected Social and Economic Services.

Table 1.14 : Efficiency of Expenditure Use in Selected Social and Economic Services
(in per cent)

Social/Economic Infrastructure	2009-10			2010-11		
	Share of CE to TE	In concerned sector of RE, the share of		Share of CE to TE	In concerned sector of RE, the share of	
		S & W	O & M		S & W	O & M
Social Services (SS)						
Education, Sports, Art and Culture	3.54	59.53	0.13	3.17	55.97	0.06
Health and Family Welfare	4.73	69.63	0.34	5.33	66.67	1.71
Water Supply, Sanitation, Housing and Urban Development	29.55	25.04	9.95	26.47	22.43	9.38
Other Social Services	7.19	11.02	0.07	8.51	10.05	0.06
Total (SS)	8.21	42.87	1.00	8.03	39.78	1.11
Economic Services (ES)						
Agriculture and Allied Activities	0.94	45.67	0.27	5.31	39.97	0.23
Irrigation and Flood Control	80.85	86.70	7.65	84.89	87.11	5.48
Power and Energy	27.34	0.00	0.68	7.40	--	0.66

Social/Economic Infrastructure	2009-10			2010-11		
	Share of CE to TE	In concerned sector of RE, the share of		Share of CE to TE	In concerned sector of RE, the share of	
		S &W	O&M		S&W	O &M
Transport	77.97	46.36	46.19	76.29	45.41	45.13
Other Economic Services	15.91	11.43	0.39	23.69	11.94	0.28
Total (ES)	35.69	27.74	3.88	34.29	27.73	3.44
Total (SS+ES)	23.72	36.93	2.13	21.69	35.35	1.97

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations and Maintenance
 (Source : State Finance Accounts of the respective years and information furnished by A G (A&E) Madhya Pradesh)

Table 1.14 reveals that the share of capital expenditure on Social Services decreased from 8.21 *per cent* in 2009-10 to 8.03 *per cent* in 2010-11 and on Economic Services, it declined from 35.69 *per cent* to 34.29 *per cent* in 2010-11.

- The decrease in share of capital expenditure under Social Services was mainly under Education, Sports, Art and Culture and Water Supply, Sanitation, Housing and Urban Development while the decline in the share of capital expenditure under Economic Services was mainly under the Power and Energy and Transport.
- Of the revenue expenditure, the share of salaries and wages under Social and Economic Services decreased from 36.93 *per cent* in 2009-10 to 35.35 *per cent* in 2010-11. In the case of O&M, expenditure decreased from 2.13 *per cent* in 2009-10 to 1.97 *per cent* in 2010-11, mainly under Irrigation and Flood Control.
- Thus, decrease in the proportion of capital expenditure on Social and Economic Services to total expenditure and also the fall in revenue expenditure on salaries and wages and O&M during the current year over the previous year indicated decline in the quality of services.

It was observed that during 2001-10, the Compound Annual Growth Rate (CAGR) of revenue expenditure on Health sector in case of Madhya Pradesh was less than that of General Category States, while on Education it was higher than that of General Category States. This means that the expenditure on Health sector needed to be increased (Appendix 1.1).

1.9 Financial Analysis of Government Expenditure and Investments

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

financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous years.

1.9.1 Investment and Returns

The Government invested ₹ 12,216.04 crore in Statutory Corporations (23), Government Companies (34), Other Joint Stock Companies (23), Banks (one) and Co-operatives Banks, Societies (127) etc. as of 31 March 2011 (**Table 1.15**). The average return on these investments was 0.47 *per cent* in the last three years while the Government paid an average rate of interest (7.07 *per cent*) on the borrowings during 2008-2011.

Table-1.15: Return on investments

	(₹ in crore)				
Investment/return/cost of borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (₹in crore)	8,161.71	8,844.99	9,643.35	11,686.28	12,216.04
Return (₹in crore)	14.40	59.23	69.05	49.75	32.20
Return (<i>per cent</i>)	0.18	0.67	0.72	0.43	0.26
Average rate of interest on Government borrowings (<i>per cent</i>)	7.86	7.72	7.24	6.94	7.04
Difference between interest rate and return (<i>per cent</i>)	7.68	7.05	6.52	6.51	6.78

(Source : State Finance Accounts of the respective years)

- Out of the total investment of ₹ 12,216.04 crore at the end of March 2011, ₹ 1,082.58 crore pertained to the composite State of Madhya Pradesh and was pending allocation between Madhya Pradesh and Chhattisgarh {(Statutory Corporations (₹ 411 crore), Government Companies (₹ 187.04 crore), Co-operative Banks and Societies (₹ 483 crore) and Joint-Stock Companies (₹ 1.54 crore)}.
- The return on these investments was 0.26 *per cent* in 2010-11, while the Government paid interest at the average rate of 7.04 *per cent* on its borrowings during 2010-11.
- Fourteen Government Companies with an aggregate investment of ₹ 714.74 crore for the latest year for which accounts were finalized as of 2010-11 were running in losses which accumulated to ₹ 2,173.84 crore (**Appendix-1.9**).

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

1.9.2 Loans and advances by the 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/organizations. **Table 1.16** presents the outstanding loans and advances as on 31 March 2011, interest receipts *vis-à-vis* interest payments during the last three years.

Table-1.16: Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of loans/interest receipts/ cost of borrowings	2008-09	2009-10	2010-11	
			BE	Actual
Opening Balance	5,823	7,630		11,424
Amount advanced during the year	1,861	3,817	1,619	3,715
Amount repaid during the year	54	23	60	34
Closing Balance	7,630	11,424		15,105
<i>of which</i> Outstanding balance for which terms and conditions have been settled				
Net addition	1,807	3,794	1,559	3,681
Interest received	64	1,102	167	21
Interest receipts as percentage of outstanding Loans and Advances	0.95	11.57		0.16
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	7.24	6.94		7.04
Difference between interest payments and interest receipts (<i>per cent</i>)	6.29	-4.63		6.88

(Source : State Finance Accounts of the respective year and Budget Estimate 2010-11)

- The total outstanding loans and advances as on 31 March 2011, was ₹ 15,105 crore. The interest received against these loans was ₹ 21 crore. Loans advanced to various State Government institutions were higher than the recovery of loans and advances resulting in an increase in outstanding loans and advances.
- It was observed that 75 *per cent* (₹ 11,344 crore) of outstanding loans and advances (₹ 15,105 crore) as on 31 March 2011 pertained to MPSEB and its successor companies and another 14 *per cent* were to be recovered from units engaged in Water Supply, Sanitation, Housing and Urban Development (₹ 2,043 crore), seven *per cent* from those under Miscellaneous General Services (₹ 1,034 crore) and two *per cent* from those in Agriculture and allied activities (₹ 366 crore).
- The average interest paid on borrowings at the rate of 7.04 *per cent* was more than the interest received at the rate of 0.16 *per cent* on loans and advances given by the Government during 2010-11.
- The significant increase in disbursement of loans and advances was mainly in respect of loans to power transmission and distribution companies.
- The recovery of loans and advances of ₹ 34 crore during the year was less than the BE of ₹ 60 crore mainly due to non-recovery from MPSEB and its successor companies. The increase of ₹ 11 crore in actual recoveries over the previous year was mainly under Loans to General Miscellaneous Services (₹ four crore) and Water Supply, Sanitation and Urban Development (₹ five crore).
- Interest received (₹ 21 crore) in 2010-11 was less than the BE (₹ 167 crore) and actuals (₹ 1,102 crore for 2009-10) mainly due to less receipt of interest from power projects.

1.9.3 Cash Balances and Investment of Cash balances

Table 1.17 depicts the cash balances and investments made by the State Government out of the cash balances during the year:

Table-1.17: Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 1 April 2010	As on 31 March 2011	Increase(+)/ Decrease(-)
Cash Balances	3,912.93	6,900.44	(+)2,987.51
Investments from Cash Balances (a to d)	5,559.72	9,212.17	(+)3,652.45
a. GOI Treasury Bills	5,556.19	9,208.64	(+)3,652.45
b. GOI Securities	3.53	3.53	--
c. Other Securities	--	--	--
d. Other Investments	--	--	--
Funds-wise Break-up of Investments from earmarked balances (a to d)	379.95	379.06	(-)0.89
a. Famine Relief Fund	1.13	0.91	(-)0.40
b. Revenue Reserve Fund	9.41	8.74	(-)0.67
c. State Agriculture Credit Relief and Guarantee Fund	0.18	0.17	
d. Guarantee Redemption Fund	369.23	369.23	--
Interest Realized	172.84	263.41	(+)90.57

(Source : State Finance Accounts of the respective years)

- The cash balances of the Government at the end of the year increased by ₹ 2,988 crore (76 per cent) from the level of ₹ 3,913 crore in the previous year. Maintaining large idle cash balances is not advisable as these are borrowed at a high cost and invested in low interest-bearing treasury bills and government securities.
- Under an agreement with the Reserve Bank of India (RBI), the Government of Madhya Pradesh has to maintain with the RBI a minimum cash balance of ₹ 1.96 crore. If this balance falls below the agreed minimum on any day, the deficiency is made good by taking Ordinary and Special Ways and Means Advances/Overdrafts from time to time. As on 31 March 2011, nothing was outstanding on account of transactions relating to Ways and Means advances. Investment from earmarked balances decreased by ₹ 89 lakh during 2010-11 mainly under the Revenue Reserve Fund.

1.10 Assets and Liabilities

1.10.1 Growth and composition of Assets and Liabilities

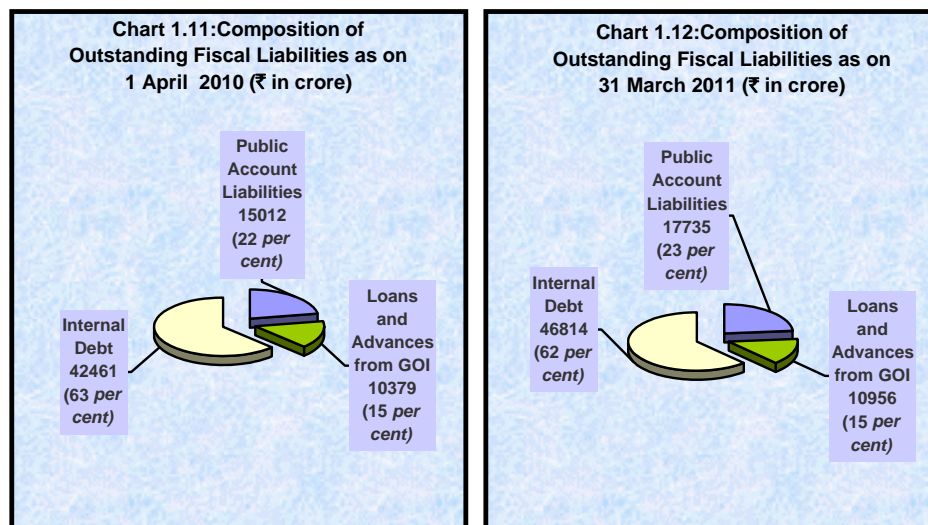
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix-1.5 Part-B** gives an abstract of such liabilities and assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the Government and cash balances.

The FRBM Act, 2005, describes 'Total Liabilities' as the liabilities under the Consolidated Fund and the Public Account of the State and includes risk

weighted guarantee obligations of the State Government where the principal and/or interest are to be serviced out of the State Budget.

1.10.2 Fiscal Liabilities

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



(Source : State Finance Accounts of the respective year)

- The overall fiscal liabilities of the State increased from ₹ 53,280 crore in 2006-07 to ₹ 75,504 crore in 2010-11. The growth rate decreased to 11.28 per cent during 2010-11 as against 12.28 per cent in 2009-10. The decrease in borrowings during 2010-11 over the previous year was mainly under loans from LIC of India (₹ 11 crore), loans from other institutions (₹ 78 crore), compensation and other bonds (₹ 361 crore) and loans from National Bank of Agriculture and Rural Development (₹ 56 crore), partly offset by an increase mainly under market loan (₹ 3,257 crore), Special Securities issued to NSSF (₹ 1,582 crore).
- Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. As of 31 March 2011, the Consolidated Fund liabilities (₹ 57,769 crore) comprised market loans (₹ 24,878 crore), special securities issued to NSSF (₹ 16,248 crore), compensation and issue of other bonds (₹ 2,134 crore), loans from NABARD (₹ 2,788 crore), loans and advances from GOI (₹ 10,956 crore) and other loans (₹ 765 crore). The Public Account liabilities (₹ 17,735 crore) comprised small savings, provident funds etc. (₹ 9,220 crore), interest bearing obligations (₹ 321 crore) and non-interest bearing obligations like deposits and other earmarked funds (₹ 8,194 crore).
- These liabilities stood at 27.79 per cent of GSDP which was 1.5 times the revenue receipts and 2.78 times the State's own resources as at the

end of 2010-11. The buoyancy of these liabilities with respect to GSDP decreased from 0.79 in 2009-10 to 0.57 during the year mainly due to decrease in the growth rate of the liabilities with increase in growth rate of GSDP.

- A Sinking Fund for amortization of all loans, including loans from banks, liabilities on account of NSS etc. had not been set up by the Government. The Government was of the view that except where it may be obligatory to do so, provision for amortization of loans received from GOI should be made out of revenues only where sufficient revenue resources were available to finance such amortization arrangements.

The State Government did not consider it necessary to make arrangements for amortization of any such loans in spite of having revenue surplus.

1.10.3 Status of Guarantees – Contingent liabilities

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

The maximum amounts for which guarantees were given by the State and the amount of outstanding guarantees for the three years ending 2010-11 are given in **Table 1.18**.

Table-1.18: Guarantees given by the Government of Madhya Pradesh

Guarantees	2008-09	2009-10	2010-11	
			Budget Estimate	Actual
Maximum amount guaranteed	11,991.33	11,823.20	9,132.79	8,438.50
Outstanding amount of guarantees*	1,930.09	1,629.60	4,177.70	5,110.54
Percentage of maximum amount guaranteed to total revenue receipts	35.71	28.56	21.02	16.27
Actual figures against criteria as per FRBM Act as under: (Limit the annual incremental guarantees so as to ensure that the guarantees do not exceed 80 per cent of the total revenue receipts in the year preceding the current year)	6.29*	4.85*	NA	12.35*

**To the extent information was available in Finance Accounts*

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

- The outstanding amount of guarantees is in the nature of a contingent liability, which was 9.86 per cent of the revenue receipts during 2010-11. Guarantees had been given by the State Government for the discharge of certain liabilities like loans raised by Statutory Corporations, Government Companies, Joint Stock Companies, Co-operative institutions, local bodies, firms etc.

- The maximum amount guaranteed by the Government decreased from ₹ 11,823 crore in 2009-10 to ₹ 8,439 crore (including ₹ 1,488 crore still to be allocated between Madhya Pradesh and Chhattisgarh as per the M.P. Reorganisation Act, 2000) in 2010-11, out of which ₹ 5,111 crore were outstanding at the end of the year.
- The Government constituted the Guarantee Redemption Fund which had a closing balance of ₹ 369.23 crore at the end of 2010-11. The FRBM Act, 2005 prescribes the fiscal target of limiting annual incremental guarantees so as to ensure that the total guarantees do not exceed 80 per cent of the total revenue receipts in the year preceding the current year. The annual incremental guarantee was within the limit fixed under the FRBM Act.
- As per the FRBM Act 2005, the Government is to ensure that within a period of 10 years, i.e. as on 31 March 2015, total liabilities do not exceed 40 per cent of the estimated GSDP for that year. It was observed that this ratio at 29.67 per cent (including guarantees liabilities) was within the ceiling limit laid down in the Act for the year 2015. The 13th Finance Commission had recommended that the aggregate debt to GSDP ratios of States should be reduced to 25 per cent by 2014-15. The Government should take appropriate action to reduce the Debt/GSDP ratio to the prescribed limit. The ratios of total liabilities to GSDP and revenue receipts during the year at 29.67 per cent and 155.47 per cent respectively, were also less than the corresponding BE of 40.70 per cent and 175.61 per cent respectively.

1.11 Debt Sustainability

Apart from the magnitude of debt of the Government, it is important to analyze various indicators that determine the debt sustainability¹² of the State. This section assesses the sustainability of debt of the Government in terms of debt stabilization¹³; sufficiency of non-debt

¹² Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficit should match the increase in capacity to service the debt.

¹³ A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided the primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt X rate spread), the debt sustainability condition states that if the quantum spread, together with the primary deficit is zero, the debt-GSDP ratio would be constant or the debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising and in case it is positive, the debt-GSDP ratio would eventually be falling.

receipts¹⁴; net availability of borrowed funds¹⁵; the burden of interest payments (measured by the ratio of interest payments to revenue receipts) and the maturity profile of Government securities. **Table 1.19** analyzes the debt sustainability of the State according to these indicators for the period of five years beginning from 2006-07.

Table 1.19: Debt Sustainability: Indicators and Trends

	(₹ in crore)				
Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt Stabilisation (Quantum Spread + Primary Deficit)	3,890	2,740	3,764	2,117	8,333
Sufficiency of Non-debt Receipts (Resource Gap)	1,816	(-)29	(-)1,649	(-)1,766	927
Net Availability of Borrowed Funds (percentage in bracket)	101 (1)	(-)2,160 (-20)	791 (5)	3,131 (16)	2,606 (13)
Burden of Interest Payments (Interest Payments/Revenue Receipt Ratio)	0.16	0.14	0.12	0.11	0.10

1.11.1 Debt Stabilisation

Analysis of primary deficit *vis-à-vis* the quantum spread revealed that their sums continued to be positive during 2006-11 showing that the debt was stabilizing.

1.11.2 Sufficiency of Non-debt receipts

During 2007-08, the incremental non-debt receipts were sufficient to meet the additional requirement of primary expenditure, which increased sharply during the year but were not enough to meet the incremental interest liability resulting in a moderate negative resource gap. During 2008-10, the incremental non-debt receipts were not enough to meet the incremental requirements of primary expenditure resulting in a substantial negative resource gap during the year. During the years 2006-07 and 2010-11, non-debt receipts met not only the incremental requirement of the primary expenditure but after meeting the incremental interest liabilities, resulted in a positive resource gap indicating the increasing capacity of the State to sustain its debt.

1.11.3 Net availability of funds

- The debt redemption ratio indicated (**Appendix 1.4**) a fluctuating trend during the period 2006-11. It increased from 0.99 to 1.20 during 2006-08, decreased from 0.95 to 0.84 in 2008-10 and increased to 0.87 during 2010-11. During the current year, internal debt redemption was 88 *per cent* of fresh debt receipts, redemption of GOI loans was 110 *per cent* while in case of other obligations, repayments were 84 *per cent*

¹⁴ 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.

¹⁵ Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

cent of fresh receipts. These trends indicated that the debt receipts were mainly utilised for repayment of debt.

- Out of receipts of ₹ 6,363 crore under Internal Debt, the Government raised market loans of ₹ 3,900 crore during the year at an average interest rate of 8.41 per cent per annum, ₹ 369 crore from NABARD and ₹ 2,038 crore from NSSF. The Government borrowed ₹ 1,095 crore from GOI. The receipt of loans and advances from GOI decreased from ₹ 1,345 crore in 2009-10 to ₹ 1,095 crore in 2010-11 mainly due to decrease in the receipt of Block Loans under 'Loan for State/Union Territories Plan Scheme'.
- Repayments of Internal Debt (₹ 5,579 crore) and Loans and Advances from GOI (₹ 1,207 crore) included payment of interest of ₹ 4,256 crore (63 per cent) with only ₹ 2,530 crore (37 per cent) for repayment of principal. This indicated that most of the amounts of repayments were for payment of interest. As on 31 March 2011, 24 per cent of the existing market loans of the Government carried an interest rate exceeding 10 per cent.

1.11.4 Maturity Profile of State Debt

Table 1.20: Maturity Profile of State Debt for the years 2009-10 and 2010-11

(₹ in crore)

In Years	Finance Accounts 2009-10				Finance Accounts 2010-11			
	6003- Internal Debt Amount	6004- Loans and Advances Amount	Total Amount	Per-centage of Repayme nt due to total debt	6003- Internal Debt Amount	6004-Loans and Advances Amount	Total Amount	Per-centage of Repayme nt due to total debt
0-1	1,099.42	516.27	1,615.69	3.06	1,442.43	530.65	1,973.08	3.42
1-3	3,293.24	1,064.44	4,357.68	8.25	4,005.97	1,099.20	5,105.17	8.84
3-5	5,013.71	1,112.10	6,125.81	11.59	5,338.83	1,144.06	6,482.89	11.22
5-7	4,799.48	1,141.27	5,940.75	11.24	5,794.05	1,162.60	6,956.65	12.04
7-9	7,911.45	1,133.99	9,045.44	17.12	11,436.29	1,157.49	12,593.78	21.80
9-11	7,362.20	1,131.08	8,493.28	16.07	5,645.04	1,154.22	6,799.26	11.77
11-13	1,541.20	1,127.80	2,669.00	5.05	1,745.05	1,151.08	2,896.13	5.01
13-15	5,265.85	1,113.39	6,379.24	12.07	1,708.59	375.31	2,083.90	3.61
15 years and above					4,009.71	261.96	4,271.67	7.39
Misc.*	5,687.68	2,919.25	8,213.87	15.54	5,687.68	2,919.25	8,606.93	14.90
Total	42,461.81	10,378.95	52,840.76		46,813.64	10,955.82	57,769.46	

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

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

The maturity profile of State debt as given above indicates that the State Government will have to repay 20 per cent of its debt between one and five years, 46 per cent between five and 11 years, 16 per cent after 11 years and above. The maturity profile of repayment of about 15 per cent of State debt was not available as the information had not been received from the Government/Reserve Bank of India.

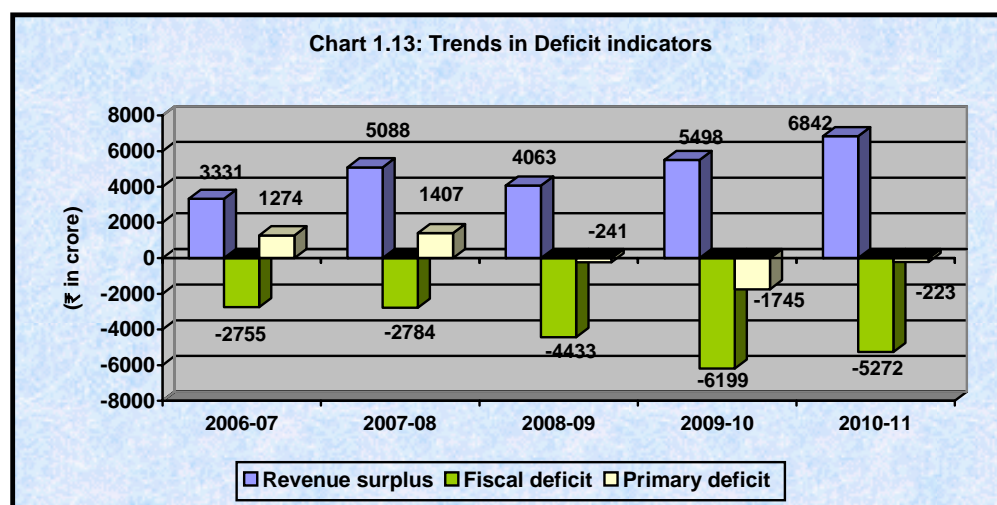
It is critical to have clarity on the repayment schedule of debt. The liability on account of State debt increases steadily from nine per cent to 22 per cent during the period from one to nine years.

1.12 Fiscal Imbalances

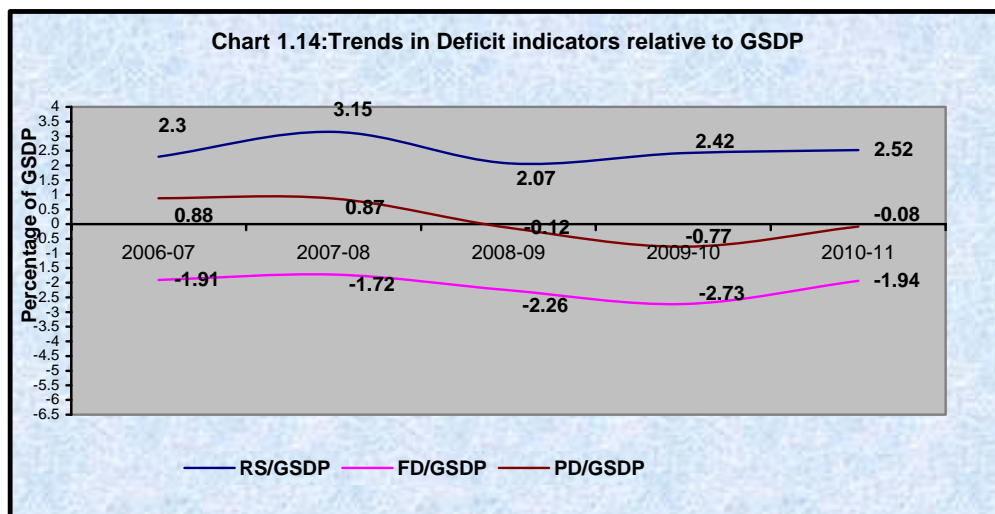
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* the targets set under FRBM Act/Rules for the financial year 2010-11.

1.12.1 Trends of deficits

Charts 1.13 and **1.14** present the trends in deficit indicators over the period 2006-11:



(Source : State Finance Accounts of the respective years)



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

- The fiscal target of eliminating the revenue deficit by March 2009 as laid down in FRBM Act was achieved by the State in the year 2004-05. Thereafter, the State maintained a revenue surplus which increased from ₹ 3,331 crore in 2006-07 to ₹ 6,842 crore in 2010-11 except in 2008-09 when it decreased to ₹ 4,063 crore. The revenue surplus as a percentage of GSDP increased from 2.42 *per cent* in 2009-10 to 2.52 *per cent* in 2010-11, which was more than BE of 0.79 *per cent*.
- The fiscal deficit, which represents the total borrowings of the government and its total resource gap, increased from ₹ 2,755 crore in 2006-07 to ₹ 6,199 crore in 2009-10 and decreased to ₹ 5,272 crore during 2010-11. The fiscal deficit relative to GSDP decreased from 2.73 *per cent* in 2009-10 to 1.94 *per cent* in the current year, which remained within the four *per cent* ceiling prescribed both in the BE and the norm recommended under the FRBM Act 2005, and also within three *per cent* norm prescribed by 13th Finance Commission.
- The primary surplus increased from ₹ 1,274 crore in 2006-07 to ₹ 1,407 crore in 2007-08 and turned into primary deficits during the period 2008-09 to 2010-11.

1.12.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.21**.

Table 1.21: Components of Fiscal Deficit and its Financing Pattern

		(₹ in crore)				
	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Decomposition of Fiscal Deficit						
1	Revenue Surplus	3,331	5,088	4,063	5,498	6,842
2	Net Capital Expenditure	-5,161	-6,822	-6,689	-7,903	-8,433
3	Net Loans and Advances	-925	-1,050	-1,807	-3,794	-3,681
Financing pattern of Fiscal Deficit						
1	Market Borrowings	1,063	1,337	3,957	5,016	3,258

	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
2	Loans from GOI	-311	102	709	888	577
3	Special Securities issued to NSSF	2,045	128	-126	492	1,582
4	Loans from Financial Institutions	76	128	51	-188	-488
5	Reserve Funds	422	-34	12	324	275
6	Small Savings, PF etc.	158	193	204	412	773
7	Deposits and Advances	782	274	237	705	1,678
8	Suspense and Miscellaneous	71	-18	-43	10	86
9	Remittances	23	57	62	31	519
10	Others	8				
11	Cash balances increase(+)/ decrease(-)	+1,582	-617	+630	+1,491	+2,988

(Source: State Finance Accounts of the respective years)

As in 2009-10, market borrowings by the State Government continued to finance a major portion of fiscal deficit but its share in financing fiscal deficit decreased from 81 *per cent* in 2009-10 to 62 *per cent* in 2010-11. The share of NSSF loans, Deposits and Advances, Small Savings, Provident Funds etc., in financing fiscal deficit was higher in 2010-11 than in 2009-10.

1.12.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. A persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) was not having any asset backup. The bifurcation of the primary deficit (Table 1.22) would indicate the extent to which the deficit was on account of enhancement in capital expenditure, which may be desirable to improve the productive capacity of the State's economy.

Table 1.22: Primary deficit/surplus – bifurcation of factors

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure (CE)	Loans and Advances*	Primary Expenditure (PE)	(₹ in crore)		
						Non-debt receipt vis-à-vis Primary revenue expenditure	Primary Deficit (-)/ surplus(+)	CE as per cent to PE
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)	9
2006-07	25,732	18,334	5,170	954	24,458	7,398	1,274	21.14
2007-08	30,807	21,410	6,833	1,157	29,400	9,397	1,407	23.24
2008-09	33,656	25,322	6,713	1,862	33,897	8,334	-241	19.80
2009-10	41,443	31,443	7,925	3,820	43,188	10,000	-1,745	18.35
2010-11	52,257	39,963	8,800	3,717	52,480	12,294	-223	16.77

*Including Inter-State settlement

(Source : State Finance Accounts of the respective years)

Bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2006-11 reveals that the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were not only adequate to meet the primary revenue expenditure but also met whole/part of the capital expenditure. But the surplus non-debt receipts were not enough to

meet the entire capital expenditure and loans and advances resulting in primary deficit in all the years during 2006-11 except in 2006-07 and 2007-08. This indicated that increase in capital expenditure resulted in the primary deficit.

1.13 Conclusion

Management of Fiscal imbalances

- The State continued to maintain revenue surplus during 2006-11 and kept fiscal deficit relative to GSDP below the limit laid down under FRBM, Act and as recommended by the 13th Finance Commission. The fiscal position of the State viewed in terms of the key fiscal parameters— revenue, fiscal and primary deficit/surplus— indicated a positive trend in 2010-11 as revenue surplus substantially increased and fiscal deficit and primary deficit decreased relative to the previous year. The revenue surplus as a percentage of GSDP increased from 2.42 *per cent* in 2009-10 to 2.52 *per cent* in 2010-11, which was more than BE of 0.79 *per cent*. The fiscal deficit relative to GSDP decreased from 2.73 *per cent* in 2009-10 to 1.94 *per cent* in the current year, thus remained within the four *per cent* ceiling prescribed both in the BE and the norm recommended under the FRBM, Act 2005, and also within three *per cent* norm prescribed by 13th Finance Commission.
- The Compound Annual Growth Rate of non-tax revenue receipts in Madhya Pradesh during the last decade was higher in comparison to that in General Category States.

Arrears of Revenue

- The arrears of revenue as on 31 March 2011 in respect of seven departments amounted to ₹ 877 crore, of which ₹ 685 crore was outstanding for more than five years. It excluded arrears of revenue in respect of Taxes on Vehicles as the same was not furnished by the concerned department (September 2011).

Management of liabilities

- The ratio of total liabilities to GSDP was within the limit of 40 *per cent* fixed under the FRBM Act, 2005. These have to be reduced to 25 *per cent* by the end of 2014-15 as per recommendations of 13th Finance Commission. Consequently, prudent debt management has to be ensured to keep the growth of liabilities in check to achieve the targets of 13th Finance Commission.
- Debt repayments will steadily increase from nine *per cent* during 2012-14 to 22 *per cent* during 2018-20. In the absence of the sinking fund

for amortisation of debt and non-availability of maturity profile of 15 *per cent* of debt, it is critical to have clarity on debt repayment schedule.

Net availability of funds

During the current year, repayment of internal debt, GOI loans and other obligations and interest thereon constituted 87 *per cent* of fresh debts leaving very less funds for asset creation.

Expenditure Management

- The expenditure pattern of the State revealed that the revenue expenditure as a percentage of total expenditure continued to be a dominant proportion of the total expenditure at 78 *per cent* during 2010-11, leaving less resource for expansion of services and creation of assets. Moreover, within the revenue expenditure of ₹ 45,012 crore, NPRE of ₹ 32,101 crore in 2010-11, remained significantly higher than the normatively assessed level of 13th Finance Commission (₹ 25,074 crore) for the year. Further, salary and wages expenditure, pension payments, interest payments and subsidies constituted about 74 *per cent* of the NPRE during the year.
- There was fall in revenue expenditure on salaries and wages and operation and maintenance during the current year over the previous year indicating decline in the quality of services.
- The priority given to Social Sector Expenditure (SSE) and expenditure on Education Sector and Health Sector in Madhya Pradesh, however, was not adequate in both the years 2007-08 and 2010-11 as their ratios to Aggregate Expenditure (AE) were lower than the General Category States' Average. Greater fiscal priority may be given to Social Sector, Education and Health sectors by the Government.

Return on investment

The return on investment of ₹ 12,216 crore made by the Government ending March 2011 in Statutory corporations, Government companies, Co-operative societies, etc. was a mere 0.26 *per cent* against its average borrowing interest rate of 7.04 *per cent* during the current year.

1.14 Recommendations

- Tax recovery measures needed to be strengthened by recovery of arrears of revenue amounting to ₹ 877 crore as on 31 March 2011 (**Paragraph 1.6.3**).

- Trends indicate that the increasing fiscal liabilities accompanied with negligible rates of return on Government investments and inadequate recovery of interest on loans and advances might put fiscal stress on the State in the medium to long run unless suitable measures are initiated to make the investments including loans and advances, commercially viable, compress the Non-Plan revenue expenditure and mobilize additional resources both through tax and non-tax sources in the ensuing years (**Paragraph 1.10.2, 1.9.1 and 1.9.2**).

- Greater fiscal priority may be given to the education and health sectors as general category states are spending a greater proportion of the aggregate expenditure on these heads than Madhya Pradesh (**Paragraph 1.8.1**).

- Direct transfer from the Union to the State implementing agencies runs the risk of poor oversight of utilisation of funds by these agencies. Unless uniform accounting practices are diligently followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers (**Paragraph 1.5.2**).

- No information in respect of incomplete projects was received from the State Government. A system of providing such information to the Accountant General (Accounts and Entitlement) may be ensured by the State Government to include in Finance Accounts of the State. Transparency in the status of incomplete projects along with complete details of revised costs and reasons for delay will go a long way in avoiding time and cost over runs.