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**Chapter-I**

**FINANCES OF THE STATE  
GOVERNMENT**

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## CHAPTER I

### Finances of the State Government

#### *Profile of Madhya Pradesh*

Madhya Pradesh is the second largest State of India, covering an area of 308 thousand square kilometre. It is located in the central part of the country and is an agrarian landlocked State. It is 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 Reorganisation Act 2000 (No.28 of 2000), 16 districts<sup>1</sup> of the erstwhile State of Madhya Pradesh were carried out to be 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 persons 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 (GSDP) for the period 2002-03 to 2011-12 has been 13.77 *per cent* as compared to 14.46 *per cent* of General Category States. During this period, its population grew by 16.52 *per cent* against 13.90 *per cent* in General Category States. The *Gini Coefficient* 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 an audit perspective on the finances of the Government of Madhya Pradesh during 2011-12 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 analysis is based on the Finance Accounts of the Government of Madhya Pradesh and information provided therein. The structure and form of Government Accounts and the layout of the Finance Accounts are depicted in **Appendix 1.2 Part-A**. 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 reorganisation as well as other financial adjustments is carried out in accordance with the provisions of the Madhya Pradesh Reorganisation Act 2000 (No.28 of 2000) The actual progress achieved in this direction is indicated in **Appendix 1.2 Part-B**.

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<sup>1</sup> Bastar, Bilaspur, Dantewara, Dhamtari, Durg, Janjgir-Champa, Jashpur, Kanker, Kawardha, Korba, Korja, Mahasamund, Raigarh, Raipur, Rajnandgaon and Surguja.

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## 1.2 Summary of Fiscal Transactions

**Table 1.1** presents the summary of the State Government's fiscal transactions during the current year (2011-12) *vis-à-vis* the previous year while **Appendix 1.5 Part-A** presents abstract 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)

2010-11	Receipts	2011-12	2010-11	Disbursements	2011-12		
<b>Section-A: Revenue</b>							
					<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
<b>51,854.18</b>	<b>Revenue Receipts</b>	<b>62,604.07</b>	<b>45,011.59</b>	<b>Revenue expenditure</b>	<b>36,677.16</b>	<b>16,016.55</b>	<b>52,693.71</b>
21,419.34	Tax revenue	26,973.44	14,646.68	General services	16,091.11	137.53	16,228.64
5,719.77	Non-tax revenue	7,482.73	17,345.40	Social services	10,460.00	9,836.94	20,296.94
15,638.51	Share of Union Taxes/ Duties	18,219.13	10,084.48	Economic services	7,499.98	5,464.93	12,964.91
9,076.56	Grants from Government of India	9,928.77	2,935.03	Grants-in-aid and Contributions	2,626.07	577.15	3,203.22
<b>Section-B: Capital</b>							
<b>366.54</b>	<b>Misc. Capital Receipts</b>	<b>22.65</b>	<b>8,799.88</b>	<b>Capital Outlay</b>	<b>32.29</b>	<b>9,022.87</b>	<b>9,055.16</b>
<b>33.65</b>	<b>Recoveries of Loans and Advances</b>	<b>9,122.56</b>	<b>3,714.73</b>	<b>Loans and Advances disbursed</b>	<b>14,681.31</b>	<b>1,079.25</b>	<b>15,760.56</b>
<b>1.64</b>	<b>Inter-State settlement</b>	<b>2.65</b>	<b>1.85</b>	<b>Inter-State settlement</b>			<b>3.70</b>
<b>7,457.94</b>	<b>Public Debt receipts</b>	<b>6,750.25</b>	<b>2,529.23</b>	<b>Repayment of Public Debt</b>			<b>3,149.79</b>
<b>--</b>	<b>Contingency Fund</b>	<b>100.00</b>	<b>--</b>	<b>Contingency Fund</b>			<b>100.00</b>
<b>65,675.10</b>	<b>Public Account receipts</b>	<b>76,315.22</b>	<b>62,344.26</b>	<b>Public Account disbursements</b>			<b>73,279.04</b>
<b>3,912.93</b>	<b>Opening Cash Balance</b>	<b>6,900.44</b>	<b>6,900.44</b>	<b>Closing Cash Balance</b>			<b>7,775.88</b>
<b>1,29,301.98</b>	<b>Total</b>	<b>1,61,817.84</b>	<b>1,29,301.98</b>	<b>Total</b>			<b>1,61,817.84</b>

(Source: State Finance Accounts of the respective years)

The following are the significant changes in fiscal transactions during 2011-12 over the previous year:

- Revenue Receipts increased by ₹ 10,750 crore (21 per cent) over that of the previous year due to increase in the State's own tax revenue (₹ 5,554 crore; 26 per cent), Non-tax revenue (₹ 1,763 crore; 31 per cent), Grants from Government of India (₹ 852 crore; 9.4 per cent) and share of Union Taxes and Duties (₹ 2,581 crore; 16.5 per cent). This has resulted in an increase in the Revenue Surplus from ₹ 6,842 crore in 2010-11 to ₹ 9,910 crore in 2011-12.
- Revenue Expenditure increased by ₹ 7,682 crore (17 per cent) (Non Plan: 14 per cent and Plan: 24 per cent). This increase was mainly in respect of General services sector (₹ 1,582 crore; 11 per cent), Social services sector (₹ 2,952 crore; 17 per cent) and Economic services sector (₹ 2,880 crore; 29 per cent).
- Capital Expenditure increased by ₹ 255 crore (three per cent). This increase was mainly under Social services sector (₹ 67 crore; four per cent) and Economic services sector (₹ 199 crore; three per cent). This was offset by decrease in General services sector (₹ 11 crore; six per cent).
- Public Debt Receipts decreased by ₹ 708 crore (nine per cent) showing improvement in the State's debt management. The decrease in Public Debt Receipts was due to decrease in borrowings (Internal debt: ₹ 646 crore and

Loans and Advances by GOI: ₹ 62 crore). Repayment of Public Debt increased by ₹ 621 crore (25 per cent).

- Public Account Receipts and Disbursements increased by ₹ 10,640 crore (16 per cent) and ₹ 10,935 crore (18 per cent) respectively.
- As a result of inflow/outflow of the funds stated above, the Cash Balances of the State at the close of 2011-12 increased by ₹ 875 crore (13 per cent) 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 the Fiscal Responsibility and Budget Management Act (FRBM), 2005 which came into force from 1 January 2006 with a view to ensuring 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 within a Medium-term Fiscal Framework. The Thirteenth 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 Thirteenth Finance Commission in December 2009.

The fiscal performance of the State *vis-à-vis* FRBM targets and those framed in the Medium Term Fiscal Policy Statement (MTFPS) for the year 2011-12 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 achievement
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	To be eliminated by 2008-09	(+) 3,867	(+) 9,910
Fiscal Deficit (-)/ Surplus (+) (₹ in crore)	To be reduced to not more than three per cent of GSDP by 31 March 2012	(-) 7,982 (three per cent of GSDP)	(-) 5,760 (1.83 per cent of GSDP)
Total Fiscal Liabilities (including guarantees)	40 per cent of GSDP by 31 March 2015	32.10 per cent of GSDP	27.70 per cent of GSDP
Outstanding Guarantees	Not to exceed 80 per cent of the total Revenue Receipts (RR) of the preceding year	9.47 per cent* of RR of the preceding year	10.81 per cent* of RR of the preceding year

\*To the extent information was available in the State Finance Accounts and statement laid before the legislature under FRBM Act during 2011-12

(Source: Statement laid before the legislature under FRBM Act during 2011-12 and State Finance Accounts of the respective years)

- The State had achieved Revenue Surplus in the year 2004-05 and had maintained the Revenue Surplus thereafter. The actual Tax Revenue (₹ 26,973 crore) and Non-tax Revenue (₹ 7,483 crore) was more than both the assessed levels of the Thirteenth Finance Commission (₹ 19,715 crore and ₹ 4,911 crore respectively) and the Budget

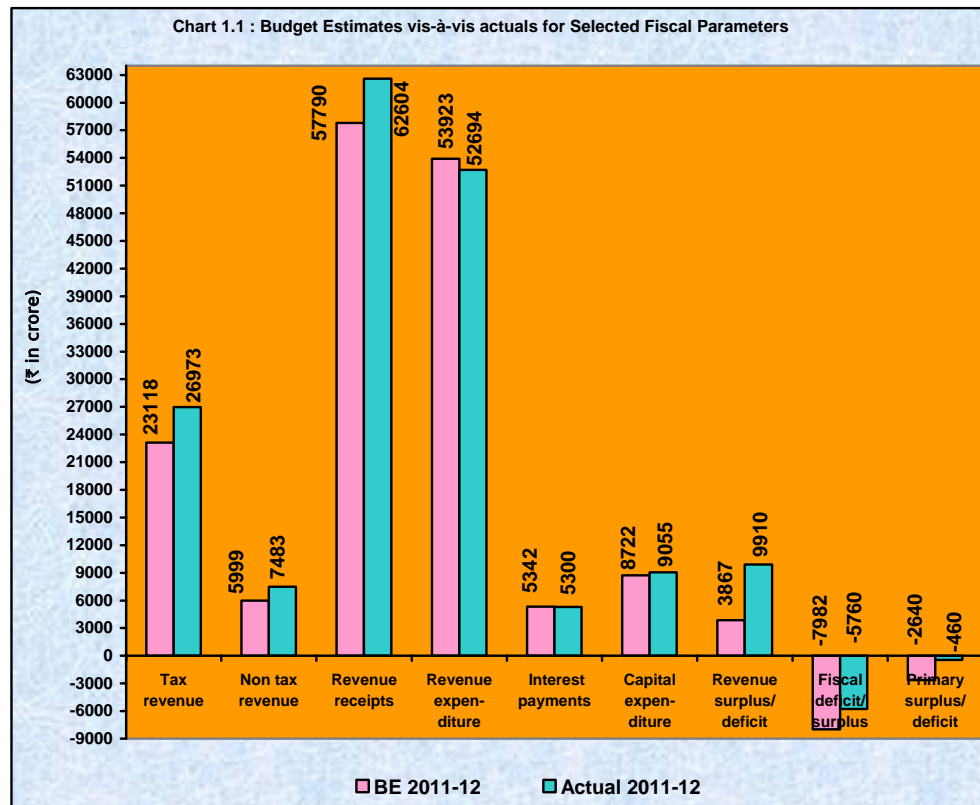
Estimates (₹ 23,118 crore and ₹ 5,999 crore respectively) while the Non-Plan Revenue Expenditure (₹ 36,677 crore) in 2011-12 was more than the normatively assessed level of the Thirteenth Finance Commission (₹ 30,776 crore) but less than the projection made by the State in its MTFPS (₹ 38,205 crore) [Tables 1.7 and 1.8].

- The Fiscal Deficit was within the amended limit of three *per cent* of GSDP prescribed in the FRBM targets and also within the three *per cent* limit prescribed by the Thirteenth Finance Commission and the projections of MTFPS.
- While the total Fiscal Liabilities (including Guarantees) to GSDP ratio at 27.70 *per cent* was within the FRBM target to be achieved by 31 March 2015, it was less than the projected 32.10 *per cent* in MTFPS.
- The outstanding Guarantees during the year was 10.81 *per cent* of the Revenue Receipts of the preceding year which was well within the limit prescribed in the FRBM targets but slightly more than the projections of MTFPS.

## 1.4 Budget 2011-12

### Actual vis-à-vis Budget Estimates

Chart 1.1 presents the Budget Estimates and Actual for some important fiscal parameters:



(Source: State Finance Accounts and Budget Estimates 2011-12)

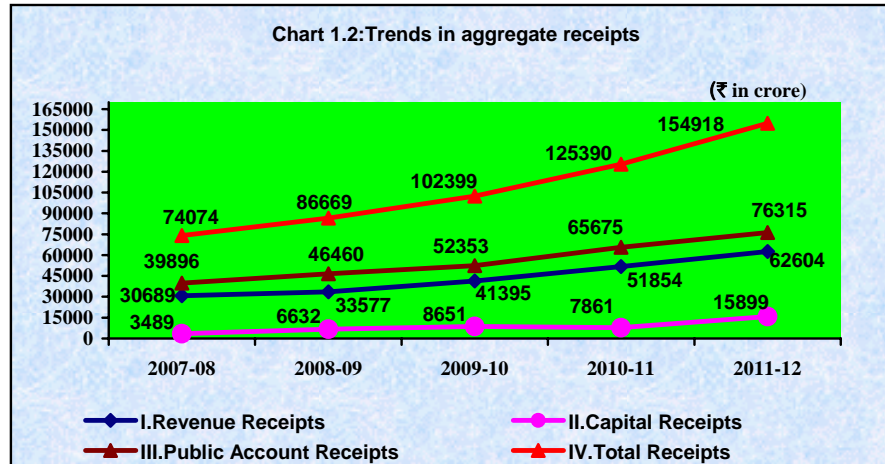
From the Chart above it may be seen that:

- The key fiscal indicators viz., Revenue Surplus, Fiscal Deficit and Primary Deficit showed improvement with reference to the Budget Estimates (BEs).
- Interest Payments and Revenue Expenditure were within the BEs while Capital Expenditure and Non-Tax Revenue were more than the BEs.
- Tax Revenue was more than the BE mainly due to more receipts under Stamps and Registration Fees, Taxes on Sales, Trade etc. and Taxes and Duties on Electricity. Actual receipts under these heads were more than the BEs by ₹ 1,284 crore, ₹ 687 crore and ₹ 403 crore respectively.
- Capital Expenditure was more than the BE mainly due to more expenditure under Power Projects (₹ 236 crore), Minor Irrigation (₹ 180 crore) and Major Irrigation (₹ 92 crore), partly offset by less expenditure under Roads and Bridges (₹ 160 crore) and Medium Irrigation (₹ 62 crore).

## 1.5 Resources of the State

### 1.5.1 Resources of the State<sup>2</sup> as per Annual Finance Accounts

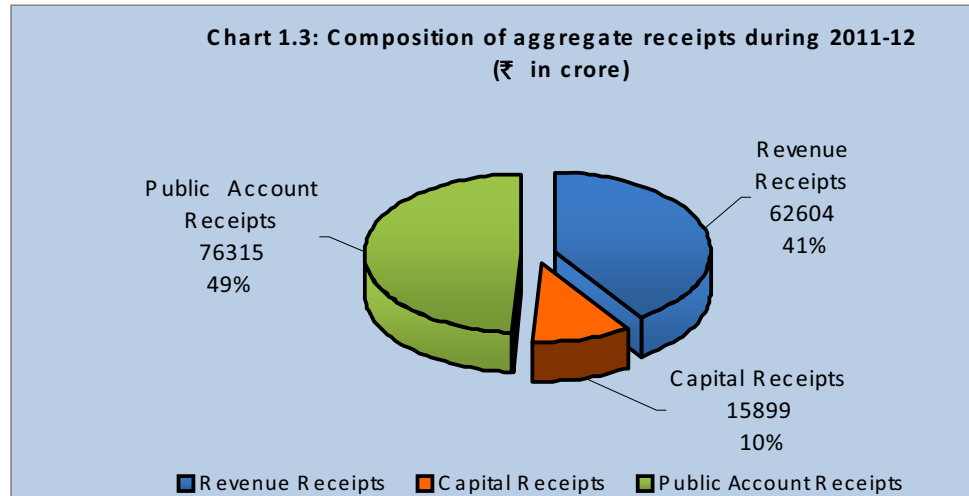
**Table 1.1** presents the receipts and disbursements of the State during the year 2011-12 as recorded in the Annual Finance Accounts while **Chart 1.2** depicts the trends of various components of the receipts of the State during the period 2007-12.



(Source: State Finance Accounts of the respective years)

<sup>2</sup> 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.

**Chart 1.3** depicts the composition of resources of the State during the year 2011-12.



(Source: State Finance Accounts of the respective years)

- The Revenue, Capital and Public Account receipts constituted 41, 10 and 49 per cent of the Total Receipts respectively during 2011-12. The Total Receipts of the State increased by 109 per cent during the period 2007-12, of which Revenue Receipts and Capital Receipts increased by 104 per cent and 356 per cent.
- The relative share of Revenue Receipts in Total Receipts during 2007-12 ranged between 39 to 41 per cent. The share of Capital Receipts in Total Receipts increased from five per cent in 2007-08 to 10 per cent in 2011-12. The decrease in Public Debt receipts from ₹ 7,458 crore (5.95 per cent of Total Receipts) in 2010-11 to ₹ 6,750 crore (4.36 per cent) in 2011-12 was due to lesser borrowings under Special Securities issued to National Small Savings Fund of the Central Government.
- Although the receipts under the Public Account increased at an average annual growth rate of 18.26 per cent during the period 2007-12, their share in the Total Receipts of the State ranged between 54 per cent in 2007-08 to 49 per cent during 2011-12 with inter-year variations.

### 1.5.2 Funds Transferred to State Implementing Agencies outside the State Budget

The Central Government transferred ₹ 9,497.91 crore during 2011-12 directly to State implementing agencies<sup>3</sup> for implementation of various Schemes/Programmes in the Social and Economic sectors as against transfer of ₹ 9,002.13 crore during 2010-11. The fund transfers increased by six

<sup>3</sup> State implementing agencies include any organizations/institutions including non-Government 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.

per cent during 2011-12. 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 2011-12
1	Mahatma Gandhi National Rural Employment Guarantee Scheme(90:10)	Madhya Pradesh State Employment Guarantee, Bhopal	2,968.51
2	Sarva Shiksha Abhiyan (SSA) (65:35)	M.P. Sarva Shiksha Abhiyan Mission	1,904.27
3	Pradhan Mantri Gram Sadak Yojana (PMGSY)	Madhya Pradesh Rural Road Development Authority, Bhopal	1,138.05
4	National Rural Health Mission (NRHM) Centrally Sponsored (85:15)	State Health Society Madhya Pradesh	620.62
5	Rural Housing-IAY (75:25)	DRDA (All Districts)	426.68
6	National Rural Drinking Water Programme	State Water and Sanitation Mission, Madhya Pradesh, Bhopal	140.09
7	--do--	Public Health Engineering Department, Bhopal	152.69
8	Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	M.P. Madhyamik Shiksha Abhiyan Samiti	242.39
9	Scheme for setting up of 6000 model schools at Block Level as Bench Mark of Excellence	M.P. Madhyamik Shiksha Abhiyan Samiti	202.74
10	Central Rural Sanitation Programme	State Water and Sanitation Mission Madhya Pradesh, Bhopal	150.76
11	National Food Security Mission (100:0)	State Institute of Agriculture Extension and Training	146.82
12	Indian Institute of Science Education and Research, (All 5 IISERs)	Indian Institute of Science Education and Research, Bhopal	142.00
13	MPs Local Area Development Scheme (MPLADS)	District Collector (All Districts)	132.10
14	Integrated Watershed Management Programme (IWMP)	SLNA, Madhya Pradesh	106.53
15	Aajeevika	DRDA (All Districts)	115.39
16	National Mission on Micro Irrigation	Director Horticulture, Madhya Pradesh	109.64

(Source: CPSM Cell of AG (A&E), Madhya Pradesh and State Finance Accounts for the year 2011-12)

Out of ₹ 9,498 crore transferred by GOI during 2011-12, ₹ 71.47 crore was released to 667 Voluntary Organisations (VOs) /Non-Government Organisations (NGOs). Of these, 25 NGOs/VOs received an amount of ₹ 25 lakh or more each totaling ₹ 46.15 crore during the year (**Appendix 1.7**).

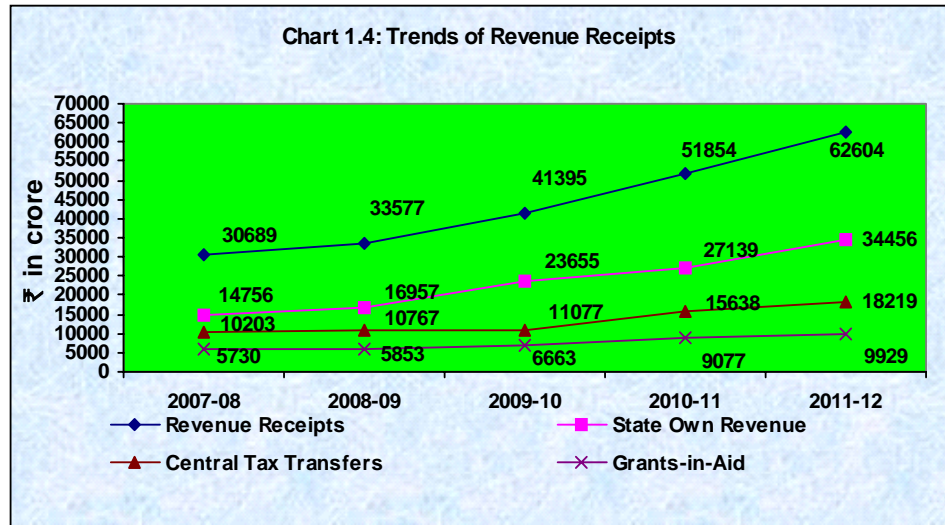
As these funds are not routed through the State Budget/State treasury system, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. Direct transfer from the Union to the State implementing agencies are required to be accompanied by adequate control mechanisms for effective oversight of utilisation of funds, in the absence of which it could impact and inhibit the FRBM Act's requirement of transparency in fiscal operations and accountability.

## 1.6 Revenue Receipts

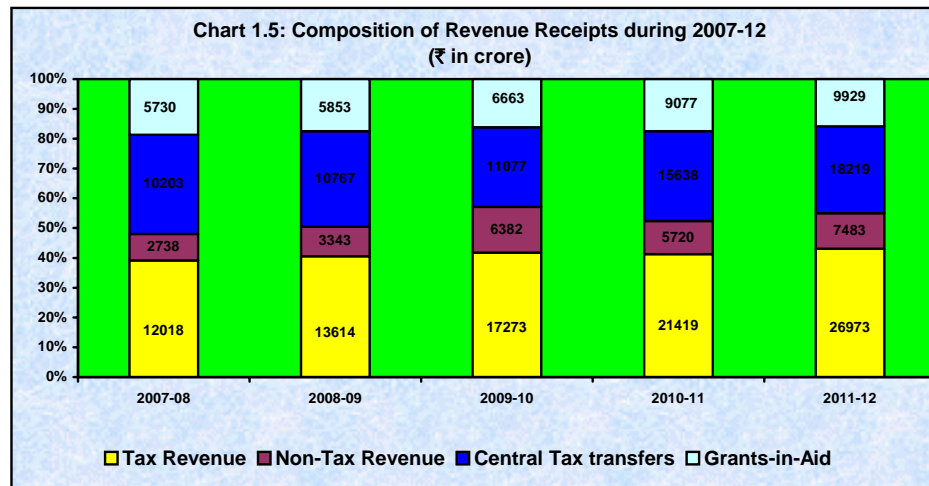
Revenue Receipts consist of the State's Own Tax and Non-Tax Revenues, Central Tax Transfers and Grants-in-Aid from GOI. Statement-11 of the Finance Accounts of 2011-12 details the Revenue Receipts of the Government.



The trends and composition of Revenue Receipts over the period 2007-12 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)

### General trends

- The Revenue Receipts of the State consistently increased at an average annual growth rate of 21 per cent from ₹ 30,689 crore in 2007-08 to ₹ 62,604 crore in 2011-12. While 55 per cent of the Revenue Receipts during 2011-12 had come from the State's own resources comprising Tax Revenue (43 per cent) and Non-Tax Revenue (12 per cent), the balance 45 per cent was contributed by Central Tax Transfers and Grants-in-Aid together.
- The relative share of the State's Own Tax and Non-Tax Revenue exhibited an increasing trend during 2007-12 except in 2010-11, while

that of Central Tax Transfers and Grants-in-Aid showed decreasing trend during 2007-10 and increasing trend from 2010-12.

- Of the total increase of ₹ 10,750 crore in the Revenue Receipts of the State during 2011-12, ₹ 3,433 crore (32 per cent) was contributed by Central Transfers and the remaining ₹ 7,317 crore (68 per cent) by the State's own resources.
- The trends of Revenue Receipts relative to GSDP are presented in **Table 1.4**.

**Table 1.4: Trends of Revenue Receipts relative to GSDP**

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Revenue receipts (RR) (₹ in crore)</b>	<b>30,689</b>	<b>33,577</b>	<b>41,395</b>	<b>51,854</b>	<b>62,604</b>
Rate of growth of RR ( <i>per cent</i> )	19.44	9.41	23.28	25.27	20.73
GSDP figures (₹ in crore)	1,61,469	1,97,276	2,27,984	2,60,403	3,15,387
Growth rate of GSDP ( <i>per cent</i> )	11.69	22.17	15.57	14.22	21.11
RR/GSDP ( <i>per cent</i> )	19.00	17.02	18.16	19.91	19.85
<b>Buoyancy Ratios<sup>4</sup></b>					
Revenue Buoyancy with reference to GSDP	1.66	0.42	1.50	1.78	0.98
State's Own Tax Buoyancy with reference to GSDP	1.26	0.60	1.73	1.69	1.23

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

Ideally, the growth rate of revenue should be higher than GSDP growth rate so that over time the budget can be better balanced. An analysis of the Table revealed the following:

- The Revenue Receipts relative to GSDP increased consistently from 19 per cent in 2007-08 to 19.91 per cent in 2010-11 but decreased marginally to 19.85 per cent in 2011-12.
- The Revenue Buoyancy as well as State's Own Tax Buoyancy with reference to GSDP decreased in 2011-12 as compared to the previous year due to less growth of Revenue Receipts.

### 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 mobilisation 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 *vis-à-vis* Budget Estimates, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the year 2011-12 along with the respective All-India Average are given in **Table 1.5**.

<sup>4</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, Revenue Buoyancy at 0.6 implies that Revenue Receipts tend to increase by 0.6 percentage points, if the GSDP increases by one per cent.

**Table 1.5: Cost of Collection**

(₹ in crore)							
Sl. No.	Head of Revenue	Year	BE	Collection	Expenditure on Collection of Revenue	Percentage of Expenditure on Collection	All India Average percentage (2010-11)
<b>Tax Revenue</b>							
1	Taxes on Sales, Trades etc.	2011-12	11,830.00	12,516.73	111.36	0.89	0.75
2	Taxes on Vehicles	2011-12	1,285.00	1,357.12	40.40	2.98	3.71
3	State Excise	2011-12	4,050.00	4,316.49	973.88	22.56	3.05
4	Stamp Duty and Registration Fees	2011-12	2,000.00	3,284.41	63.71	1.94	1.60

(Source: Budget Estimates 2011-12, State Finance Accounts and information furnished by the AG (E&RSA), MP)

During 2011-12, the gross collection was more than the Budget Estimate in respect of Taxes on Vehicles, Taxes on Sales, Trade etc., State Excise and Stamp Duty and Registration Fees.

### **Tax Revenue**

- **Table 1.6** below shows the trends of the composition of Tax Revenue of the State during 2007-12:

**Table 1.6: Tax Revenue**

(₹ in crore)					
	2007-08	2008-09	2009-10	2010-11	2011-12
Taxes on Sales, Trade etc.	6,045	6,843	7,724	10,257	12,517
State Excise	1,854	2,302	2,952	3,603	4,317
Stamps and Registration Fees	1,532	1,479	1,783	2,514	3,284
Taxes on Vehicles	703	773	919	1,198	1,357
Land Revenue	129	339	180	361	279
Taxes on Goods and Passengers	916	1,333	1,333	1,746	2,047
Other Taxes	839	545	2,382	1,740	3,172*
<b>Total</b>	<b>12,018</b>	<b>13,614</b>	<b>17,273</b>	<b>21,419</b>	<b>26,973</b>

\* Other taxes include Taxes and Duties on Electricity (₹1,773 crore), Taxes on Immovable Property Other than Agricultural Land (₹1,080 crore), Other Taxes on Income and Expenditure (₹249 crore), Other Taxes and Duties on Commodities and Services (₹52 crore) and Hotel Receipt Tax (₹18 crore).

(Source: State Finance Accounts of the respective years)

- Taxes on Sales, Trade etc. were the major contributors (46 per cent) of the State's Own Tax Revenue followed by State Excise (16 per cent), Stamps and Registration Fees (12 per cent), Taxes on Goods and Passengers (eight per cent) and Taxes on Vehicles (five per cent) during 2011-12.
- There was a growth of 22 per cent in Taxes on Sales, Trade etc., 20 per cent in State Excise, 31 per cent in Stamps and Registration Fees, 13 per cent in Taxes on Vehicles, 17 per cent in Taxes on Goods and Passengers and an increase of 20 per cent in Taxes and Duties on Electricity in 2011-12 over the previous year and a decline of 23 per cent on Land Revenue.

- The increase in receipts under Taxes on Sales, Trade etc. (₹ 2,260 crore) was mainly due to increase in receipts under the State Sales Tax Act. The increase in State Excise receipts was mainly due to receipt under Foreign liquors and spirits, Medicinal and toilet preparations containing alcohol, opium etc. The increase under Stamps and Registration Fees was mainly due to increase in receipt of Sale of Stamps-Judicial (₹ 64 crore) and Stamps-non-Judicial (₹ 715 crore). The increase in receipts under Taxes on Vehicles was due to increase in receipt of ₹ 42 crore under the Indian Motor Vehicles Act and other receipts (₹ 103 crore). The decrease under Land Revenue was mainly due to decrease in receipt of Land Revenue/ tax (₹ 72 crore) and under rates and cesses on land (₹ 29 crore). The increase of ₹ 301 crore under Taxes on Goods and Passengers was mainly due to increase in receipt under tax on Entry of goods into local areas. The increase under Taxes and Duties on Electricity (₹ 297 crore) was mainly due to more receipt under Taxes on consumption and sale of electricity and fees under Indian Electricity Rules.

### ***Non-Tax Revenue***

Non-Tax Revenue comprises receipts mainly from Interest, Non-Ferrous Mining and Metallurgical Industries, Forestry and Wildlife, Education, Sports, Art and Culture.

- Non-Tax Revenue increased by ₹ 1,763 crore from ₹ 5,720 crore in 2010-11 to ₹ 7,483 crore in 2011-12, mainly due to increase in receipts under Interest Receipts (₹ 1,273 crore) and Education, Sports, Art and Culture (₹ 357 crore).
- Major contributors of Non-Tax Revenue during 2011-12 were Non-Ferrous Mining and Metallurgical Industries (27 per cent), Forestry and Wildlife (12 per cent), Education, Sports, Art and Culture (21 per cent) and Interest Receipts, Dividend and Profits (22 per cent).
- It was observed that during the period 2002-03 to 2011-12, 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 the Thirteenth Finance Commission and the State Government during 2011-12 are given in **Table 1.7** below:

**Table 1.7: Tax and Non-Tax Revenue**

	(₹ in crore)		
	Assessments made by the Thirteenth Finance Commission	Projections by State Government in MTFPS	Actual receipts
Tax Revenue	19,715	23,118	26,973
Non-Tax Revenue	4,911	5,999	7,483

(Source: State Finance Accounts of the respective year and Statement laid before the legislature under F.R.B.M. Act during 2011-12 and Thirteenth Finance Commission recommendation 2010-15)

Actual realisation under Tax Revenue and Non-Tax Revenue was higher than the assessment made by the Thirteenth Finance Commission (36.81 and 52.37 per cent) and MTFPS projections (16.68 and 24.74 per cent). The increase in Non-Tax Revenue with respect to MTFPS was mainly due to increase in receipts of Education, Sports, Art and Culture and Power departments.

### ***Recovery of cost of Operations and Maintenance expenses***

The cost of Operations and Maintenance (O&M) charges in respect of major components of Non-Tax Revenue is given in **Appendix 1.6**. As may be seen from the Appendix, in 2011-12, the cost recovery of O&M expenses (ratio of Non-Tax Revenue Receipts to O&M expenses) was 190.56 for Education, Sports, Art and Culture; 6.58 for Health and Family Welfare; 0.25 for Water Supply, Sanitation, Housing and Urban Development; 98.71 for Agriculture and Allied activities; 0.01 for Transport; 8.08 for Irrigation and Flood Control and 28.04 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 State Government should increase the Non-Tax Revenue Receipts and curtail the O&M expenses in respect of these two sectors.

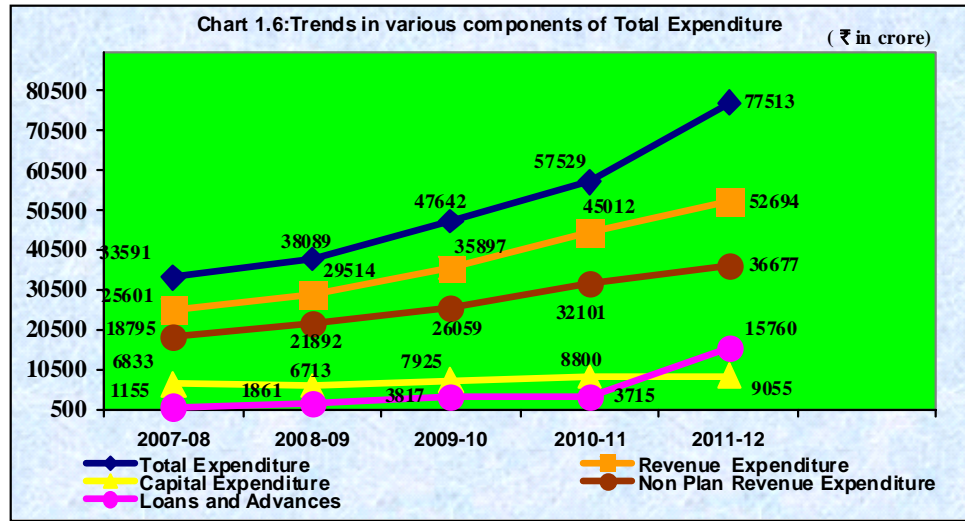
## **1.7 Application of resources**

Analysis of the allocation of expenditure by the State Government's level assumes significance since the responsibility for effective management and application of the resources is to be discharged by 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 process of fiscal correction and consolidation duly focuses on Social and Developmental Expenditure without ignoring the increasing trend of public expenditure, financed by borrowings. The trends in fiscal indicators (Time series data) are given in **Appendix 1.4**.

### ***1.7.1 Growth and Composition of Expenditure***

Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans and Advances. Revenue Expenditure is incurred to maintain the current level of services and make payments for past obligations and as such does not result in any addition to the State's infrastructure and services network. Capital Expenditure increases the State's infrastructure and services network (tangible assets).

**Chart 1.6** presents the trends in Total Expenditure over a period of five years (2007-12). Its composition, both in terms of ‘economic classification’ and ‘expenditure by activities’, is depicted respectively in **Charts 1.7 and 1.8**.



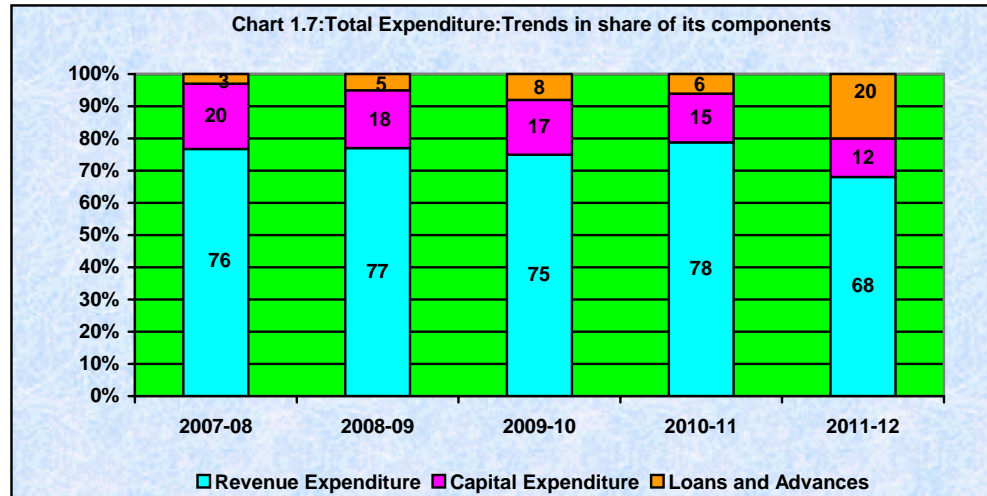
(Source : State Finance Accounts of the respective years)

The Total Expenditure of the State increased from ₹ 33,591 crore to ₹ 77,513 crore at an annual average growth rate of 26 per cent per annum during 2007-12. The Capital and Revenue Expenditure components increased by ₹ 2,222 crore (33 per cent) and ₹ 27,093 crore (106 per cent) respectively during the same period. These trends indicate that the increase in Capital and Revenue Expenditure was in the ratio of 1:12 during this five year period.

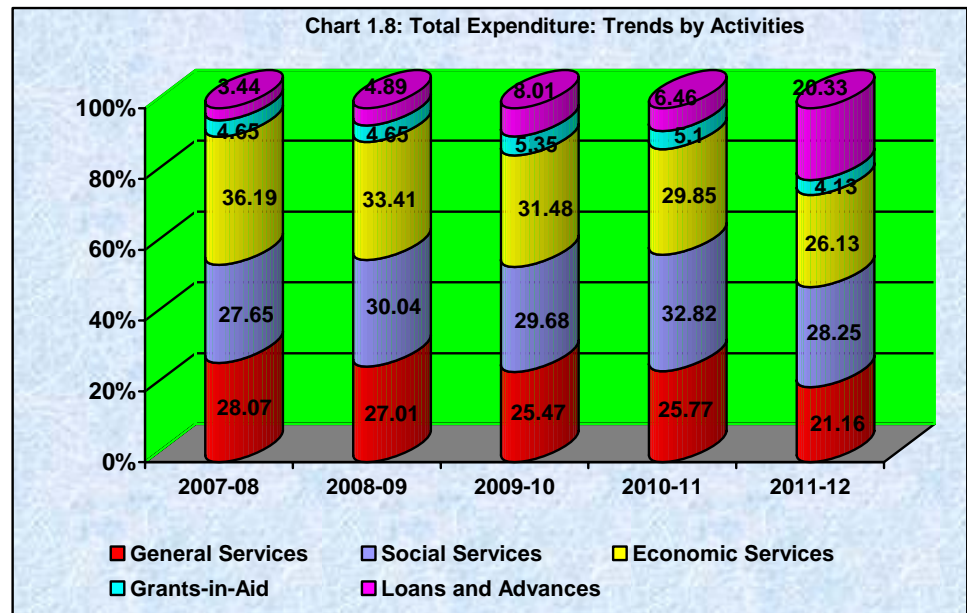
The ratio of Revenue Expenditure to Total Expenditure decreased from 76 per cent in 2007-08 to 68 per cent in 2011-12 with inter-year fluctuation and continued to share the dominant portion of the total expenditure of the State Government. The capital expenditure relative to total expenditure correspondingly decreased from 20 per cent in 2007-08 to 12 per cent in 2011-12. In terms of Plan and Non-Plan expenditure, the Plan expenditure increased by ₹ 3,592 crore and Non-Plan expenditure registered a growth of ₹ 16,390 crore over the previous year.

The significant increase of ₹ 19,984 crore in Total Expenditure (35 per cent) during 2011-12 over 2010-11 was mainly due to increase of ₹ 7,682 crore (17 per cent) in Revenue Expenditure and ₹ 255 crore (three per cent) in Capital Expenditure and ₹ 12,047 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 Energy (₹ 616 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 102 crore), Welfare of SC, ST and Other Backward Classes (₹ 77 crore), Rural Development (₹ 53 crore), partly offset by decrease under Transport (₹ 301 crore), Education, Sports, Art and Culture (₹ 99 crore), Agriculture and Allied Activities (₹ 98 crore) and Social Welfare and Nutrition (₹ 51 crore).

In 2011-12, Revenue Receipts (₹ 62,604 crore) as a ratio of Total Expenditure (₹ 77,513 crore) stood at 81 per cent which meant that 81 per cent of the Total Expenditure could be met out of Revenue Receipts. The decreasing trend of the Fiscal Liabilities to Revenue Receipts ratio during the period 2007-12 indicated increasing reliance on Revenue Receipts to finance the Total Expenditure and decreasing dependence on borrowed funds.



(Source: State Finance Accounts of the respective years)



(Source: State Finance Accounts of the respective years)

- The share of Revenue Expenditure in Total Expenditure ranged between 68 to 78 per cent during 2007-12.
- The share of Loans and Advances in Total Expenditure showed an increasing trend during 2007-12, except during 2010-11 when it had decreased.
- Capital Expenditure showed a decreasing trend during the period 2007-12. It was observed that a major portion of the total Capital

Expenditure was Plan Capital Expenditure during the period. During 2011-12, 99.65 per cent of the total Capital Expenditure was Plan Capital Expenditure ( ₹ 9,023 crore) which increased by ₹ 366 crore from the level of ₹ 8,657 crore in 2010-11.

- The share of General Services (including Interest Payments), considered as non-developmental expenditure declined from 28.07 per cent to 21.16 per cent over the period 2007-12, while the share of Social Services increased from 27.65 per cent in 2007-08 to 32.82 per cent in 2010-11 and decreased to 28.25 per cent in 2011-12. The share of Economic Services indicated a decreasing trend from 36.19 per cent in 2007-08 to 26.13 per cent in 2011-12. The development expenditure comprising Social and Economic Services together decreased from 62.67 per cent in 2010-11 to 54.38 per cent in 2011-12.
- The share of Grants-in-Aid showed an increasing trend during the period 2007-10 and a decreasing trend during 2010-12.

#### **Trends in growth of Revenue Expenditure**

- The overall Revenue Expenditure of the State increased from ₹ 25,601 crore in 2007-08 to ₹ 52,694 crore in 2011-12, showing an increase of 106 per cent over the period. Out of the total increase of Revenue Expenditure of ₹ 7,682 crore (17.07 per cent) during 2011-12, Non-Plan Revenue Expenditure (NPRE) amounted to ₹ 4,576 crore (60 per cent) while ₹ 3,106 crore (40 per cent) was incurred under Plan Revenue heads.
- The increase in NPRE during 2011-12 was mainly due to increase in expenditure on General Education ( ₹ 896 crore), Non-ferrous Mining and Metallurgical Industries ( ₹ 757 crore), Pension and other retirement benefits ( ₹ 622 crore), Compensation and assignment to Local Bodies and Panchayati Raj Institutions ( ₹ 237 crore), Police ( ₹ 291 crore), Interest Payment ( ₹ 251 crore), Medical and Public Health ( ₹ 229 crore) and Other Rural Development Programmes ( ₹ 271 crore) which was partly offset by decrease under Power ( ₹ 176 crore).
- The actual NPRE vis-à-vis the assessment made by the Thirteenth Finance Commission and the State Government are given in **Table 1.8**.

**Table 1.8: Trends in the growth of Non-Plan Revenue Expenditure**

(₹ in crore)

Year	Assessments made by Thirteenth Finance Commission	Assessments made by State Government in MTFPS	Actual NPRE
	(1)	(2)	(3)
2011-12	26,957	38,205	36,677

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



- The actual NPRE at ₹ 36,677 crore in 2011-12 was more than the normatively assessed level of the Thirteenth Finance Commission (36.06 *per cent*) but less than the projection made by the State Government in its MTFPS (four *per cent*). Relative to the assessment made by Thirteenth Finance Commission, the increase was mainly under General Services excluding Interest Payments (₹ 6,459 crore), Social Services (₹ 8,467 crore) and Economic Services (₹ 5,761 crore), partly offset by decrease under Interest Payments (₹ 534 crore).
- The Plan Revenue Expenditure (PRE), which consistently increased during the period 2007-12, increased by ₹ 3,106 crore (24.06 *per cent*) during 2011-12. The increase in PRE in 2011-12 was mainly under General Education (₹ 476 crore), Education, Sports, Art and Culture (₹ 598 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 191 crore), Social Security and Welfare (₹ 788 crore), Crop Husbandry (₹ 107 crore), Welfare of SC, ST and OBC (₹ 181 crore), Health and Family Welfare (₹ 164 crore) and Energy (₹ 594 crore).

### 1.7.2 Expenditure on Salaries and Wages, Pensions, Interest Payments and Subsidies

The 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 the period 2007-12.

**Table-1.9: Components of Expenditure on Salaries and Wages, Pension, Interest Payments and Subsidies**

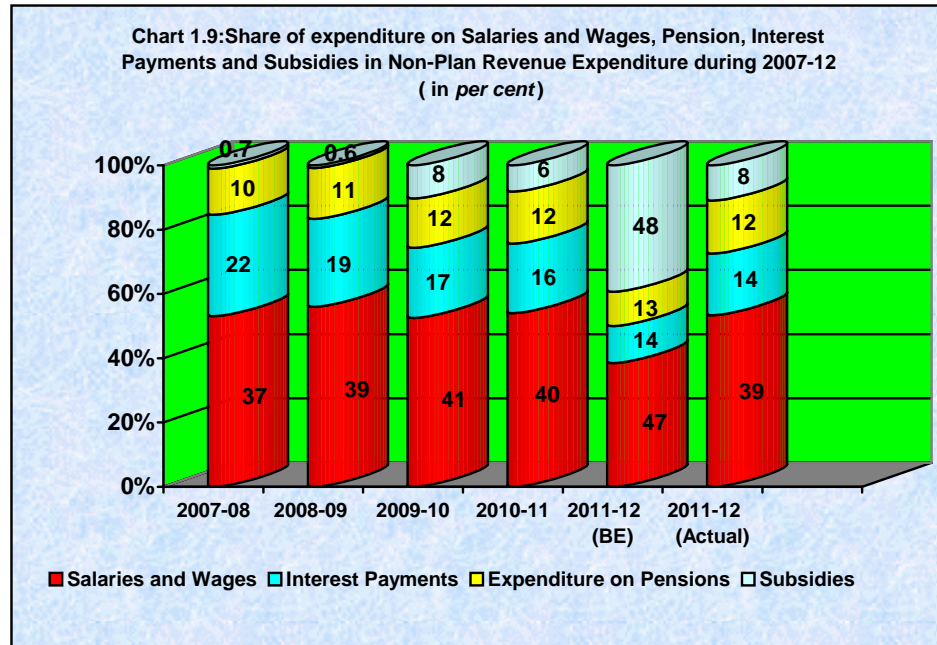
Components of Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actual
Salaries and Wages, of which	6,984 (22.76)	8,547 (25.45)	10,678 (25.80)	13,100 (25.26)	17,839 (30.87)	14,113 (22.54)
Non-Plan Head	6,221	7,660	9,406	11,490	--	12,274
Plan Head**	763	887	1,272	1,610	--	1,839
Interest Payments	4,191 (13.66)	4,192 (12.48)	4,454 (10.76)	5,049 (9.74)	5,342 (9.24)	5,300 (8.47)
Expenditure on Pensions	1,964 (6)	2,433 (7)	3,077 (7)	3,767 (7.26)	5,158 (8.93)	4,389 (7.01)
Subsidies	141 <sup>@</sup> (0.46)	132 <sup>@</sup> (0.39)	2,033 <sup>@</sup> (4.91)	1,810 <sup>@</sup> (3.49)	18,328 (31.71)	2,926 <sup>@</sup> (4.67)
<b>Total</b>	<b>13,280</b> <b>(43)</b>	<b>15,304</b> <b>(46)</b>	<b>20,242</b> <b>(49)</b>	<b>23,726</b> <b>(46)</b>	<b>46,667</b> <b>(81)</b>	<b>26,728</b> <b>(43)</b>

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 expenditure on Salaries and Wages, Pensions, Interest Payments and Subsidies increased by 101 per cent during the period 2007-12. This expenditure during 2011-12 constituted 73 per cent of the NPRE. As a percentage of Revenue Receipts, it showed an increasing trend during 2007-10 and decreasing trend during 2010-12. During 2011-12, it constituted 43 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 102 per cent from ₹ 6,984 crore in 2007-08 to ₹ 14,113 crore in 2011-12. Expenditure on Salaries and Wages as a percentage of Revenue Receipts showed an increasing trend during the period 2007-10 and a decreasing trend during 2010-12.
- There was an increase of seven per cent in expenditure on Salaries and Wages under the Non-Plan head during 2011-12 over the previous year. Actual expenditure on Salaries and Wages of ₹ 14,113 crore in 2011-12 was less than the projections in the BE (₹ 17,839 crore).

#### **Pension Payments**

- Pension Payments increased by 17 per cent from ₹ 3,767 crore during 2010-11 to ₹ 4,389 crore during 2011-12 mainly on account of increase under Superannuation and Retirement Allowances (₹ 443 crore), Family Pension (₹ 171 crore) and Government Contribution for defined Contribution Pension Scheme (₹ 39 crore).

- Actual Pension Payment at ₹ 4,389 crore in 2011-12 was (14.91 per cent) less than the BE of ₹ 5,158 crore and (36.05 per cent) more than ₹ 3,226 crore as projected by the Thirteenth Finance Commission.

### **Interest Payments**

- Interest Payments of ₹ 5,300 crore during 2011-12 accounted for 8.47 per cent of the Revenue Receipts and constituted 10.06 per cent of Revenue Expenditure during 2011-12. Interest Payments during the year were on Special Securities issued to National Small Saving Fund (NSSF) of the Central Government (₹ 1,475 crore), market loans (₹ 1,660 crore), loans borrowed from the Central Government (₹ 667 crore), State Provident Fund (₹ 1,050 crore) and Other Internal Debt (₹ 426 crore).
- The increase of ₹ 251 crore in Interest Payment during 2011-12 over the previous year was the result of increase under State Provident Fund (₹ 458 crore), Interest on Other Internal Debt (₹ 94 crore) and Interest on Special Securities issued to NSSF of Central Government (₹ 48 crore), partly offset by a decrease under Interest on Market Loans (₹ 144 crore), Interest on Other Obligations (₹ 183 crore) and Interest on Loans and Advances from Central Government (₹ 22 crore).
- Interest Payments of ₹ 5,300 crore paid during the year were less than both the BE of ₹ 5,342 crore and the projection (₹ 5,834 crore) made by the Thirteenth Finance Commission for 2011-12.

### **Subsidies**

- Subsidy Payment of ₹ 2,926 crore (Non plan: ₹ 1,543 crore and Plan: ₹ 1,383 crore) accounted for 4.67 per cent of the Revenue Receipts and constituted 5.55 per cent of the Revenue Expenditure during 2011-12. The details of subsidies in Non- Plan and Plan Revenue Expenditure are presented in **Appendix 1.9**.
- During 2011-12, out of the total Subsidies of ₹ 2,926 crore, ₹ 1,551 crore (53 per cent) was mainly for the Energy Department.
- The increase in the amount of Subsidy (₹ 1,116 crore) in 2011-12 over the previous year was mainly due to increase in Subsidy of Co-operation (₹ 238 crore), Farmer Welfare and Agriculture Development (₹ 220 crore) and School Education (₹ 173 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 Other Institutions during 2011-12 relative to the previous year is presented in **Table 1.10**:

**Table 1.10: Financial Assistance to Local Bodies and Other Institutions**

( ₹ in crore)		
<b>Financial Assistance to Institutions</b>	<b>2010-11</b>	<b>2011-12</b>
Educational Institutions	1,481.13	2,107.33
Medical Health and Public Health	623.35	753.28
Housing	156.36	201.04
Urban Development	579.60	778.14
Welfare of SC/ST/OBC	277.68	353.58
Social Security and Welfare	644.37	671.01
Rural Development	768.21	711.40
Rural Employment	227.99	336.50
Panchayati Raj	3,966.17	4,446.96
Water Supply and Sanitation	160.08	111.04
Other Institutions	232.12	360.02
<b>Total</b>	<b>9,117.06</b>	<b>10,830.30</b>
<b>Assistance as a percentage of Revenue Expenditure</b>	<b>20.25</b>	<b>20.55</b>

(Source: VLC data of Accountant General (A&E), Madhya Pradesh)

- Financial assistance to Local Bodies and Other Institutions increased by ₹ 1,713.24 crore from ₹ 9,117.06 crore in 2010-11 to ₹ 10,830.30 crore in 2011-12. The increase was mainly on account of financial assistance to Educational Institutions (₹ 626.20 crore; 42 per cent) and Panchayati Raj Institutions (₹ 480.79 crore; 12 per cent).
- The assistance as a percentage of Revenue Expenditure marginally increased from 20.25 per cent in 2010-11 to 20.55 per cent in 2011-12.

### **1.7.3.1 Devolution of Funds and Auditing Arrangements of Local Bodies**

#### **(a) Urban Local Bodies**

After the 74<sup>th</sup> Constitution Amendment Act, 1992, the Urban Local Bodies (ULBs) were made full fledged and vibrant institutions of Local Self Government by vesting them with clearly defined functions and responsibilities. Accordingly, the State Government organised these institutions into three types of ULBs namely Municipal Corporations for larger urban areas, Municipal Councils for smaller urban areas and *Nagar Parishads* for a transitional areas.

There are 377 ULBs (14 Municipal Corporations, 100 Municipal Councils and 263 *Nagar Parishads*) in the State which are governed by elected bodies.

#### **Transfer of Funds, Functions and Functionaries**

Visualising ULBs as institutions of self-governance, the 74<sup>th</sup> Constitutional Amendment Act, 1992 left the extent of devolution to the wisdom of the State Legislatures. Major elements of devolution are transfer of funds, functions and functionaries to ULBs, accompanied by administrative control over staff and freedom to take administrative and financial decisions at local level. Devolution of funds to ULBs should be a natural corollary to implement the

transferred functions. Devolution of powers and functions to the ULBs required availability of qualified and trained personnel at all levels for efficient discharge of these functions.

The State Government devolved all 18 functions<sup>5</sup> (enshrined in Twelfth schedule of the Constitution) to ULBs. However, no separate funds and functionaries have been transferred (August 2012).

### **Devolution of Grants**

The Third State Finance Commission (SFC) recommended (accepted by State Government in February 2010) that one *per cent* of Divisible Fund<sup>6</sup> of the State Government should be devolved to ULBs. The Funds to be devolved and those actually devolved by the State Government are given in **Table 1.11**:

**Table 1.11: Devolution of Grants to ULBs**

(₹ in crore)

Year	Own Tax Revenue of State during the Previous Year	Amount of assigned Tax Revenue of Previous Year	Divisible Fund of State Government	Funds to be devolved as per Third SFC recommendations	Funds devolved to ULBs by State Government	Short release
2010-11	17,272.81	1,266.00	1,3960.22	139.60	122.74	16.86
2011-12	21,419.34	1,520.80	17,410.17	174.10	141.41	32.69
<b>Total</b>	<b>38,692.15</b>	<b>2,786.80</b>	<b>31,370.39</b>	<b>313.70</b>	<b>264.15</b>	<b>49.55</b>

(Source: State Finance Accounts 2009-10 and 2010-11 and information furnished by Commissioner, Urban Administration and Development Department (UADD), MP)

It can be seen from the above table that devolution of funds by the State Government to the Urban Local Bodies was less (₹ 49.55 crore) compared to the norms of the Third SFC.

### **Revenue generated from Own resources**

Details of receipts and expenditure of ULBs from their own sources were sought from Urban Administration and Development Department (UADD) in October 2011 and again in June 2012. The Commissioner (UADD) stated (June 2012) that the same would be collected and furnished to audit. The

<sup>5</sup> Urban Planning including Town Planning; Regulation of land-use and construction of buildings; Planning for economic and social development; Roads and bridges; Water supply for domestic, industrial and commercial purposes; Public health, sanitation conservancy and solid waste management; Fire services; Urban forestry, protection of the environment and promotion of ecological aspects; Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded; Slum improvement and upgradation; Urban poverty alleviation; Provision of Urban amenities and facilities such as parks, gardens, playgrounds; Promotion of cultural, educational and aesthetic aspects; Burials and burial grounds; cremations, cremation grounds and electric crematoriums; Cattle pounds, prevention of cruelty to animals; Vital Statistics including registration of birth and deaths; Public amenities including street lighting, parking lots, bus stops and public conveniences and Regulation of slaughter houses and tanneries.

<sup>6</sup> Own Tax Revenue after deducting 10 per cent of expenditure on collection of Tax and amount of assigned Tax Revenue to the Local Bodies during the previous year.

information was again sought in November 2012 but their reply is awaited (November 2012).

***Audit arrangement***

As per recommendations of the Eleventh Finance Commission (EFC), audit by Director Local Fund Audit (DLFA) has been brought (November 2001) under the Technical Guidance and Supervision (TG&S) of the Comptroller and Auditor General of India (C&AG). According to TGS arrangement, the DLFA would pursue the compliance of paragraphs in the inspection reports of the Accountant General (Audit) in the same manner as if these are his own reports.

The records of 68 ULBs including 10 Municipal Corporations were test checked by the Principal Accountant General<sup>7</sup> during 2011-12 and inspection reports were sent to DLFA for technical guidance. 5479 observations (including 285 observations issued during 2011-12) were outstanding at the end of 2011-12.

Para 10.121 of the recommendations of the Thirteenth Finance Commission envisages that the State Government must put in place an audit system for all Local Bodies and the C&AG be entrusted with the TG&S of all Local Bodies in the State. Further, the Annual Technical Inspection Report (ATIR) of C&AG as well as the Annual Report of the Director of Local Fund Audit (DLFA) should be placed before the State Legislature. Accordingly, the State Government amended the Madhya Pradesh Municipal Corporation Act, 1956 and Madhya Pradesh Municipalities Act, 1961 in January 2012 comprising the provisions for audit by DLFA at the State level to whom the C&AG shall give technical guidance and supervision over the audit of Municipal Corporations and Municipal Councils and laying of Annual Report of DLFA in the State Legislature. The first Annual Report of DLFA is under preparation (November 2012).

***(b) Panchayati Raj Institutions***

To promote greater autonomy at the grass root level and to involve people in identification and implementation of development programmes involving Gram Sabhas, the Seventy-third Constitutional Amendment Act, 1992 was promulgated. According to the provisions of Article 243 G of the Constitution, the Legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of Self-Government and such law may contain provision for the devolution of powers and responsibility upon the Panchayat at the appropriate level.

Consequently, a three-tier system of Panchayati Raj Institutions (PRIs) was established in the State of Madhya Pradesh.

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<sup>7</sup> Re-designated as Principal Accountant General (General and Social Sector Audit) with effect from April 2012.

- Zila Panchayat (ZP) for a district,
- Janpad Panchayat (JP) for a block and
- Gram Panchayat (GP) for a village.

There are 50 ZPs, 313 JPs and 23006 GPs in the State.

### ***Devolution of Grants***

The Third State Finance Commission recommended that the four *per cent* of the Divisible Fund<sup>8</sup> of previous year of State Government should be devolved to PRIs. The funds to be devolved and funds actually devolved by State Government is given in **Table 1.12**:

**Table 1.12: Devolution of Grants to PRIs**

(₹ in crore)

Year	Own Tax Revenue of State during the Previous Year	Amount of assigned Tax Revenue of Previous Year	Divisible Fund of State Government	Funds to be devolved as per Third SFC recommendations	Funds devolved to PRIs by State Government	Short release
2010-11	17,272.81	319.31	1,3960.22	558.41	490.94	67.47
2011-12	21,419.34	346.44	17,410.17	696.41	568.60	127.81
<b>Total</b>	<b>38,692.15</b>	<b>665.75</b>	<b>31,370.39</b>	<b>1,254.82</b>	<b>1,059.54</b>	<b>195.28</b>

(Source: State Finance Accounts 2009-10 and 2010-11 and information furnished by Commissioner, PRI, MP)

It can be seen from the above table that devolution of funds by the State Government to the PRIs was less (₹ 195.28 crore) compared to the norms of the Third SFC.

### ***Audit arrangements***

As per recommendations of the Eleventh Finance Commission (EFC), audit by DLFA has been brought (November 2001) under the TG&S of the C&AG. According to TGS arrangement, the DLFA would pursue the compliance of paragraphs in the inspection reports of the Accountant General (Audit) in the same manner as if these are his own reports. Accordingly, the audit of 47 ZPs, 185 JPs and 917 GPs was conducted during 2011-12 and inspection reports were sent to DLFA. However, 18414 observations (including 4851 observations issued during 2011-12) were outstanding at the end of 2011-12.

Para 10.121 of the recommendations of Thirteenth Finance Commission envisage that State Government must put in place an audit system for all local bodies (all tiers of PRIs). The C&AG must be given TG&S for all the local

<sup>8</sup> Own Tax Revenue after deducting 10 per cent of expenditure on collection of Tax and amount of assigned Tax Revenue to the Local Bodies during the previous year.

bodies in a State at every tier and his Annual Technical Inspection Report as well as the Annual Report of Director/Commissioner of Local Fund Audit (DLFA) must be placed before the State Legislature. Accordingly, the MP *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993 was amended in July 2011 comprising the provisions for audit by DLFA at the State level to whom the C&AG shall give technical guidance and supervision over the audit of Panchayats and laying of Annual Report of DLFA in the State Legislature. The first Annual Report of DLFA is under preparation (November 2012).

The matter was referred to the Government (November 2012); their reply has not been received (November 2012).

## 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 economic infrastructure are largely State subjects. Enhancing human development levels require the States to step up their expenditure on key social services like, education, health etc. The low level of spending on any sector by a particular State may be due to the low fiscal priority attached by the State Government. Low fiscal priority (ratio of expenditure category to Aggregate Expenditure) is attached to a particular sector if it is below the respective General Category States' Average.

**Table 1.13** analyses the Fiscal Priority of the State with regard to Development Expenditure, Social Sector Expenditure, Education and Health sector Expenditure and Capital Expenditure.

**Table 1.13: Fiscal Priority of the State in 2008-09 and 2011-12**

Fiscal Priority by the State	<i>(In per cent)</i>					
	AE/ GSDP	DE <sup>#</sup> / AE	SSE/ AE	CE/AE	Expenditure on Education/ AE	Expenditure on Health/ AE
*General Category States Average (Ratio) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Madhya Pradesh's Average (Ratio) 2008-09	19.31	68.26	30.65	17.62	13.51	3.61
*General Category States Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Madhya Pradesh Average (Ratio) 2011-12	24.58	74.71	28.43	11.68	12.88	3.32
<p>*General Category States exclude three States i.e. Delhi, Goa and Puducherry            AE: Aggregate Expenditure    DE: Development Expenditure    SSE: Social Sector Expenditure            CE: Capital Expenditure            # Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.            Source : For GSDP, the information was collected from the State's Directorate of Economics and Statistics.</p>						



**Comparative analysis revealed the following:**

- Madhya Pradesh spent a higher proportion of its GSDP on Aggregate Expenditure during 2008-09 and 2011-12 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.
- Development Expenditure consists of both Economic Services 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 States. Inadequate priority has been given to health as well as to education sector as smaller proportion of expenditure was incurred on these two sectors as compared to the General Category States Average.
- It was observed that Capital Expenditure as a percentage of Aggregate Expenditure was higher than that of General Category States Average in 2008-09. However, in 2011-12, this was lower than General Category States Average showing inadequate priority given to capital formation.

**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 rationalisation measures and lay emphasis on provision of Core Public and Merit goods<sup>9</sup>. Apart from improving the allocation towards Development Expenditure<sup>10</sup>, particularly in view of the fiscal space being created on account of the decline in debt servicing in the recent years, the efficiency of expenditure use is also reflected by the ratio of Capital Expenditure to Total Expenditure (and/or GSDP) and the proportion of Revenue Expenditure being spent on Operation and Maintenance of the existing Social and Economic Services. The higher the

---

<sup>9</sup> 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 subsidised 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 subsidised food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

<sup>10</sup> The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into Social Services, Economic Services and General Services. Broadly, the Social and Economic Services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure.

ratio of these components to the Total Expenditure (and/or GSDP), the better would be the quality of expenditure.

**Table 1.14** presents the trends in Development Expenditure relative to the Aggregate Expenditure of the State during the year 2011-12 *vis-à-vis* the budgeted figures and those of the previous years.

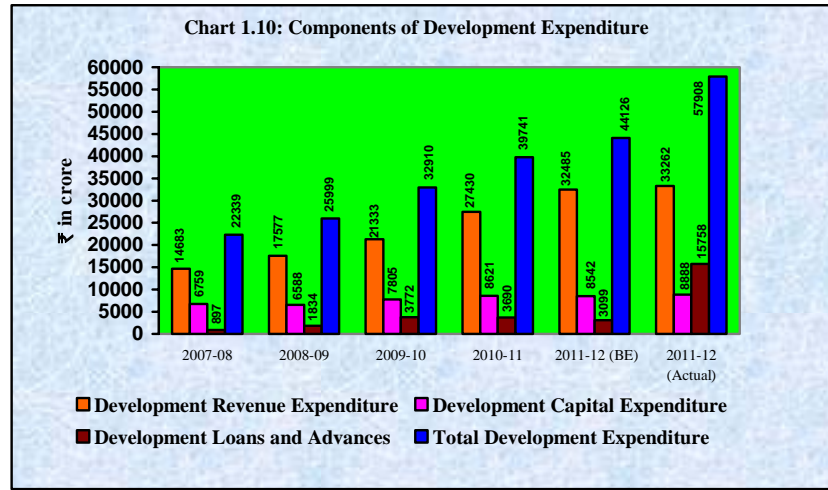
**Table 1.14: Development Expenditure**

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actual
<b>Development Expenditure (a to c)</b>	<b>22,339 (66)</b>	<b>25,999 (68)</b>	<b>32,910 (69)</b>	<b>39,741 (69)</b>	<b>44,126 (67)</b>	<b>57,908 (74)</b>
a. Development Revenue Expenditure	14,683 (44)	17,577 (46)	21,333 (45)	27,430 (48)	32,485 (49)	33,262 (43)
b. Development Capital Expenditure	6,759 (20)	6,588 (17)	7,805 (16)	8,621 (15)	8,542 (13)	8,888 (11)
c. Development Loans and Advances	897 (3)	1,834 (5)	3,772 (8)	3,690 (6)	3,099 (5)	15,758 (20)

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

- During the period 2007-12 Development Expenditure as a proportion of Aggregate Expenditure ranged between 66 and 74 *per cent*.
- The share of Development Revenue Expenditure to Total Expenditure ranged between 43 to 48 *per cent* during 2007-12 with inter-year variations.
- The share of Development Capital Expenditure showed a decreasing trend during the period 2007-12 with 20 *per cent* in 2007-08 and 11 *per cent* in 2011-12.
- The share of Development Loans and Advances showed an increasing trend during the period 2007-12 (except during the year 2010-11), being three *per cent* in 2007-08 and 20 *per cent* in 2011-12.
- The share of Development Revenue and Capital Expenditure as a proportion of Aggregate Expenditure during 2011-12 was less than both the BEs and as compared to the previous year.
- The share of Loans and Advances as a proportion of Aggregate Expenditure during 2011-12 was higher than the BE and also in comparison to the previous year.

**Chart 1.10** presents the component-wise Development Expenditure during the period 2007-12.



(Source: State Finance Accounts of the respective years)

**Table 1.15** provides the details of Capital Expenditure and the components of Revenue Expenditure incurred on the maintenance of selected Social and Economic Services.

**Table 1.15: Efficiency of Expenditure Use in Selected Social and Economic Services**  
(in per cent)

Social/Economic Infrastructure	2010-11			2011-12		
	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
<b>Social Services (SS)</b>						
Education, Sports, Art and Culture	3.17	55.97	0.06	1.72	53.39	0.08
Health and Family Welfare	5.33	66.67	1.71	5.50	65.09	0.19
Water Supply, Sanitation, Housing and Urban Development	26.47	22.43	9.38	27.71	11.97	9.38
Other Social Services	8.51	10.05	0.06	7.98	10.02	0.06
<b>Total (SS)</b>	<b>8.03</b>	<b>39.78</b>	<b>1.11</b>	<b>7.26</b>	<b>37.75</b>	<b>0.92</b>
<b>Economic Services (ES)</b>						
Agriculture and Allied Activities	5.31	39.97	0.23	2.31	34.21	0.19
Irrigation and Flood Control	84.89	87.11	5.48	83.53	67.61	5.76
Power and Energy	7.40	--	0.66	5.64	0.01	0.79
Transport	76.29	45.41	45.13	65.96	7.43	59.11
Other Economic Services	23.69	11.94	0.28	19.60	9.88	1.41
<b>Total (ES)</b>	<b>34.29</b>	<b>27.73</b>	<b>3.44</b>	<b>20.32</b>	<b>20.48</b>	<b>5.03</b>
<b>Total (SS+ES)</b>	<b>21.69</b>	<b>35.35</b>	<b>1.97</b>	<b>15.35</b>	<b>31.02</b>	<b>2.52</b>

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 1.15** reveals that the share of Capital Expenditure to Total Expenditure under Social Services decreased from 8.03 *per cent* in 2010-11 to 7.26 *per cent* in 2011-12 and under Economic Services, it declined from 34.29 *per cent* in 2010-11 to 20.32 *per cent* in 2011-12.

- The decrease in share of Capital Expenditure under Social Services was mainly under Education, Sports, Art and Culture while the decline in the share of Capital Expenditure under Economic Services was mainly under the Transport and Agriculture and Allied Activities.
- In Revenue Expenditure, the share of Salaries and Wages under Social and Economic Services decreased from 35.35 *per cent* in 2010-11 to 31.02 *per cent* in 2011-12. In case of O&M, expenditure increased from 1.97 *per cent* in 2010-11 to 2.52 *per cent* in 2011-12, mainly under Transport.
- It was observed that during 2002-03 to 2011-12, the Compound Annual Growth Rate (CAGR) of revenue expenditure on Health sector in case of Madhya Pradesh was less than that of other General Category States, while on Education it was higher than that of General Category States. This indicates 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 year 2011-12 *vis-à-vis* the previous years.

### **1.9.1 Incomplete Projects**

From the Finance Account for the years 2008-12 of the State Government, we observed that no information in respect of incomplete projects was received from the State Government for incorporation in the Finance Accounts. However, based on the information collected by us from the Departments of Water Resources (WR) and Narmada Valley Development Authority (NVDA), the position of some incomplete projects, each costing above ₹ one crore as on 31 March 2012, is given in **Table 1.16**.

**Table 1.16: Position of Incomplete Projects<sup>11</sup> as on 31 March 2012**

(₹ in crore)					
Department	Number of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cost Overrun	Cumulative Actual Expenditure (March 2012)
Water Resources Department, Madhya Pradesh	21	220.87 (21 projects)	770.18 (16 projects)	598.25 (15 projects)	614.88 (21 projects)
Narmada Valley Development Authority (N.V.D.A)	7	4,995.88	13,787.67	8,791.79	8,513.80
<b>Total</b>	<b>28</b>	<b>5,216.75</b>	<b>14,557.85</b>	<b>9,390.04</b>	<b>9,128.68</b>

(Source: Information furnished by the Accountant General (E&RSA) Madhya Pradesh, Bhopal)

**Table 1.16** reveals that an expenditure of ₹ 9,128.68 crore (March 2012) remained unfruitful on the aforesaid 28 incomplete projects. Further, out of these 28 incomplete projects, the initial budgeted cost of 23<sup>12</sup> projects (16 WR Department and 07 NVDA) was revised by the Government involving a cost overrun of ₹ 9,390.04 crore (**Appendix 1.10 Part A to C**).

The reasons for non-completion of five projects<sup>13</sup> of Water Resources Department as observed by audit were mainly late submission of Land Acquisition cases to Land Acquisition Officers, delay in award of balance work, delay in approval of drawing and design, delay in award of canal work, etc. The delays in seven projects under Narmada Valley Development Authority were mainly on account of slow progress by contractors in execution of work. The delays in creation of irrigation potential deprived the cultivators of the benefit of irrigation.

The matter was referred to the Government (November 2012); their reply has not received (November 2012).

### 1.9.2 Investment and Returns

The Government invested ₹ 13,183.59 crore in Statutory Corporations (24), Government Companies (34), Other Joint Stock Companies and Partnerships (23), Banks (one) and Co-operatives Banks, Societies (127) etc. as of 31 March 2012 (**Table 1.17**). The average return on these investments was 0.33 per cent during the period 2009-2012 while the Government paid an average rate of interest (6.91 per cent) on the borrowings during the same period.

<sup>11</sup> Public Works Department has not provided the required information pertaining to Incomplete Projects.

<sup>12</sup> In one project Kaudi Tank, though the initial budgeted cost was revised by the Government there was no cost overrun

<sup>13</sup> Birhai Tank, Kushalpur Tank, Sanjay Sagar RD (XI), Sanjay Sagar RD (XVII), Rehti, Ganj Basoda

**Table 1.17: Return on Investments**

Investment/return/cost of borrowings	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	8,844.99	9,643.35	11,686.28	12,216.04	13,183.59
Return (₹ in crore)	59.23	69.05	49.75	32.20	37.98
Return ( per cent)	0.67	0.72	0.43	0.26	0.29
Average rate of interest on Government borrowings ( per cent)	7.72	7.24	6.94	7.04	6.74
Difference between interest rate and return ( per cent)	7.05	6.52	6.51	6.78	6.45

(Source : State Finance Accounts of the respective years)

- Out of the total investment of ₹ 13,183.59 crore at the end of March 2012, ₹ 1,076.04 crore pertained to the composite State of Madhya Pradesh and was pending allocation between Madhya Pradesh and Chhattisgarh {Statutory Corporations (₹ 411 crore), Government Companies (₹ 180.49 crore), Co-operative Banks and Societies (₹ 483.01 crore) and Joint-Stock Companies and Partnerships (₹ 1.54 crore)}.
- The return on these investments was 0.29 per cent in 2011-12, while the Government paid interest at the average rate of 6.74 per cent on its borrowings during 2011-12. Thus return on Government investments was meagre as compared to cost of its borrowing.
- Twenty six Government Companies and Statutory Corporations with an aggregate investment of ₹ 11,495.42 crore for the latest year for which accounts were finalised as of 2011-12 were running in losses which accumulated to ₹ 15,931.72 crore (**Appendix 1.8**).

### 1.9.3 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/organisations. **Table 1.18** presents the outstanding Loans and Advances as on 31 March 2012, Interest Receipts *vis-à-vis* Interest Payments during the last three years.

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

(₹ in crore)

Quantum of loans/interest receipts/ cost of borrowings	2009-10	2010-11	2011-12	
			BE	Actual
Opening Balance	7,630	11,424	---	15,105
Amount advanced during the year	3,817	3,715	3,200	15,760
Amount repaid during the year	23	34	74	9,123
Closing Balance	11,424	15,105		21,742
<i>of which</i> Outstanding balance for which terms and conditions have been settled	---	---	---	---
Net addition	3,794	3,681	3,126	6,637
Interest received	1,102	21	167	1,200
Interest Receipts as percentage of outstanding Loans and Advances	11.57	0.16	---	6.51
Interest Payments as percentage of outstanding Fiscal Liabilities of the State Government	6.94	7.04	---	6.74
Difference between Interest Payments and Interest Receipts ( <i>per cent</i> )	-4.63	6.88	---	0.23

(Source : State Finance Accounts of the respective year and Budget Estimate 2011-12)

- The total outstanding Loans and Advances as on 31 March 2012 was ₹ 21,742 crore. The interest received against these loans was ₹ 1,200 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 80 *per cent* (₹ 17,360 crore) of outstanding Loans and Advances as on 31 March 2012, pertained to Madhya Pradesh State Electricity Board (MPSEB) and its successor companies and another 10 *per cent* was to be recovered from units engaged in Water Supply, Sanitation, Housing and Urban Development (₹ 2,157 crore), five *per cent* from those under Miscellaneous General Services (₹ 1,034 crore) and three *per cent* from those in Agriculture and Allied Activities (₹ 719 crore).
- The average interest paid on borrowings at the rate of 6.74 *per cent* was more than the interest received at the rate of 6.51 *per cent* on Loans and Advances given by the Government during 2011-12.
- 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 ₹ 9,123 crore during the year was significantly higher than the BE of ₹ 74 crore mainly due to higher recovery from MPSEB and its successor companies. The increase of ₹ 9,089 crore in actual recoveries over the previous year was mainly under Loans for Power Projects.
- Interest received (₹ 1,200 crore) in 2011-12, was more than the BE (₹ 167 crore) and actual (₹ 21 crore) for 2010-11, mainly due to more receipt of interest from Power Projects.

### 1.9.4 Cash Balances and Investment of Cash Balances

**Table 1.19** depicts the Cash Balances and Investments made by the State Government out of the Cash Balances during the year:

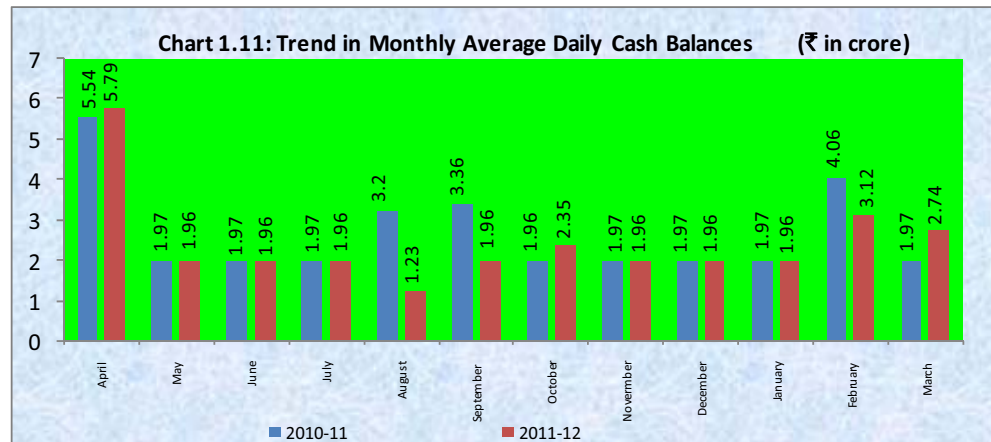
**Table 1.19: Cash Balances and Investment of Cash Balances**

Particulars	(₹ in crore)		
	As on 1 April 2011	As on 31 March 2012	Increase(+)/ Decrease(-)
<b>Cash Balances</b>	<b>6,900.44</b>	<b>7,775.88</b>	<b>(+)875.44</b>
<b>Investments from Cash Balances (a to d)</b>	<b>9,212.17</b>	<b>6,680.13</b>	<b>(-)2,532.04</b>
a. GOI Treasury Bills	9,208.64	6,676.60	(-)2,532.04
b. GOI Securities	3.53	3.53	--
c. Other Securities	--	--	--
d. Other Investments	--	--	--
<b>Funds-wise Break-up of Investments from earmarked balances (a to e)</b>	<b>379.06</b>	<b>397.30</b>	<b>(+)18.24</b>
a. Famine Relief Fund	0.91	0.51	(-)0.40
b. Revenue Reserve Fund	8.74	8.74	--
c. State Agriculture Credit Relief and Guarantee Fund	0.17	0.17	--
d. Guarantee Redemption Fund	369.23	387.87	(+)18.64
e. Other funds	0.01	0.01	--
Interest Realised	263.41	355.30	(+)91.89

(Source : State Finance Accounts of the respective years)

- The Cash Balances of the Government at the end of the year 2011-12 increased by ₹ 875 crore (13 per cent) from the level of ₹ 6,900 crore in the previous year.
- It was observed that ₹ 6,677 crore was invested in Government of India Treasury Bills, which earned an interest of ₹ 355 crore during the year. Maintaining large Cash Balances is not advisable as these are borrowed at a high cost and invested in low interest-bearing Treasury Bills and Government securities.
- Investment from Earmarked Balances increased by ₹ 19 crore during 2011-12 mainly under the Guarantee Redemption Fund.

**Chart 1.11** presents trends on monthly Average Daily Cash Balances during 2010-11 and 2011-12.



(Source: Information furnished by Accountant General (A&E), Madhya Pradesh)



- 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. No Ways and Means Advance (Normal/Special) was taken by the State during the years 2010-11 and 2011-12.

## 1.10 Assets and Liabilities

### 1.10.1 Growth and composition of Assets and Liabilities

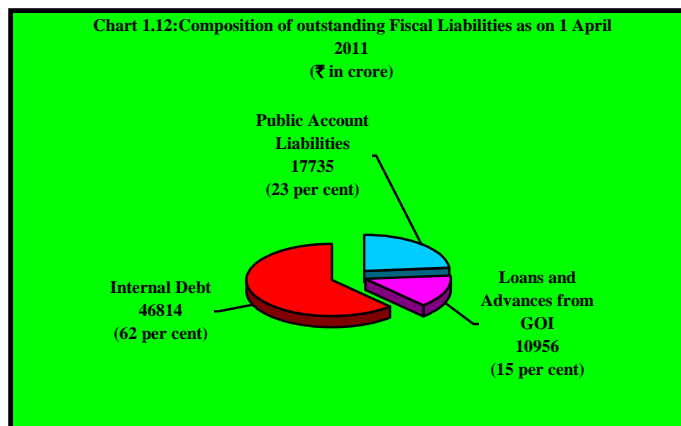
In the existing Government accounting system, comprehensive accounting of Fixed Assets like Land and Buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the Assets created out of the expenditure incurred.

**Appendix 1.5 Part-B** gives an abstract of such Liabilities and Assets as on 31 March 2012, compared with the corresponding position on 31 March 2011. 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.

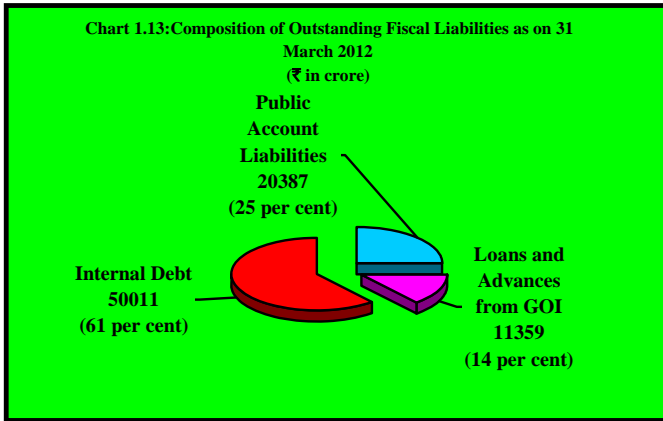
The FRBM Act, 2005, describes ‘Total Liabilities’ as the liabilities under the Consolidated Fund and the Public Account of the State and includes risk weighted guarantee obligations of the State Government where the principal and/or interest are to be serviced out of the State Budget.

### 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 year 2011-12 vis-à-vis the previous year are presented in **Charts 1.12** and **1.13**.



(Source : State Finance Accounts of the respective year)



(Source: State Finance Accounts of the respective year)

- The overall Fiscal Liabilities of the State increased from ₹ 55,311 crore in 2007-08 to ₹ 81,757 crore in 2011-12. The growth rate increased by 8.28 per cent during 2011-12 as against 11.28 per cent in 2010-11. The increase in Borrowings during 2011-12 over the previous year was mainly under Market Loans (₹ 100 crore) and loans from National Bank of Agriculture and Rural Development (NABARD) (₹ 880 crore), partly offset by a decrease mainly under Special Securities issued to National Small Saving Fund (NSSF) (₹ 1,597 crore).
- Fiscal Liabilities of the State comprised Consolidated Fund Liabilities and Public Account Liabilities. As of 31 March 2012, the Consolidated Fund Liabilities (₹ 61,370 crore) comprised Market Loans (₹ 28,044 crore), Special Securities issued to NSSF (₹ 16,081 crore), Compensation and issue of other bonds (₹ 1,773 crore), loans from NABARD (₹ 3,516 crore), Loans and Advances from GOI (₹ 11,359 crore) and other loans (₹ 597 crore). The Public Account Liabilities (₹ 20,387 crore) comprised Small Savings, Provident Funds etc. (₹ 9,916 crore), interest bearing obligations (₹ 295 crore) and non-interest bearing obligations like deposits and other earmarked funds (₹ 10,176 crore).
- These liabilities stood at 25.92 per cent of GSDP which was 1.3 times the Revenue Receipts and 2.37 times the State's own resources as at the end of 2011-12. The buoyancy of these liabilities with respect to GSDP decreased from 0.79 in 2010-11 to 0.39 during the year mainly due to decrease in the growth rate of these liabilities and increase in growth rate of GSDP.
- As the State Government is having Revenue Surplus, it would be prudent to create a Sinking Fund for amortisation of all loans, including loans from banks, liabilities on account of National Small Savings Fund etc. The Government was of the view that except where it may be obligatory to do so, provision for amortisation of loans received from GOI should be made out of revenues only where

sufficient revenue resources were available to finance such amortisation arrangements.

### 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 guarantees are extended.

The maximum amounts for which guarantees were given by the State and the amount of outstanding guarantees for the three years ending 2011-12 are given in **Table 1.20**.

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

Guarantees	2009-10	2010-11	2011-12	
			BE	Actual
Maximum amount guaranteed	11,823.20	8,438.50	9,480.18	11,107.51
Outstanding amount of Guarantees*	1,629.60	5,110.54	4,975.52	5,605.03
Percentage of maximum amount guaranteed to total Revenue Receipts	28.56	16.27	16.40	17.74
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)	4.85*	12.35*	NA	10.81*

\*To the extent information was available in State 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 8.95 per cent of the Revenue Receipts during 2011-12. 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 increased from ₹ 8,439 crore in 2010-11 to ₹ 11,108 crore (including ₹ 1,464 crore still to be allocated between Madhya Pradesh and Chhattisgarh as per the M.P. Reorganisation Act, 2000) in 2011-12, out of which ₹ 5,605 crore were outstanding at the end of the year. No guarantees have been invoked and ₹ 0.44 crore was recovered as Guarantee Fee during the year 2011-12.
- The Government constituted the Guarantee Redemption Fund during the year 2005-06, which had a closing balance of ₹ 387.87 crore at the end of 2011-12. Clause 9(2)(d) of 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 guarantees were within the limit fixed under the FRBM Act.

- As per Clause 9(2)(c) of 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 27.70 *per cent* (including guarantees liabilities) was within the limit laid down in the Act for the year 2015. The Thirteenth 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 ratio of Total Liabilities to GSDP and Revenue Receipts during the year at 27.70 *per cent* and 139.55 *per cent* respectively were also less than the corresponding BEs of 32.10 *per cent* and 147.80 *per cent* respectively.

### 1.11 Debt Sustainability

Apart from the magnitude of debt of the Government, it is important to analyse various indicators that determine the Debt Sustainability<sup>14</sup> of the State. This section assesses the sustainability of debt of the Government in terms of Debt Stabilisation<sup>15</sup>; Sufficiency of Non-debt Receipts<sup>16</sup>; Net Availability of Borrowed Funds<sup>17</sup>; the burden of Interest Payments (measured by the ratio of Interest Payments to Revenue Receipts) and the maturity profile of Government Securities. **Table 1.21** analyses the Debt Sustainability of the State according to these indicators for the period of five years beginning from the year 2007-08.

<sup>14</sup> 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.

<sup>15</sup> 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 stabilise 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.

<sup>16</sup> 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.

<sup>17</sup> 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.

**Table 1.21: Debt Sustainability: Indicators and Trends**

	(₹ in crore)				
<b>Indicators of Debt Sustainability</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>
Debt Stabilisation (Quantum Spread + Primary Deficit)	2,740	3,764	2,117	8,333	10,390
Sufficiency of Non-debt Receipts (Resource Gap)	(-)29	(-)1,649	(-)1,766	927	-488
Net Availability of Borrowed Funds (percentage in bracket)	(-)2,160 (-20)	791 (5)	3,131 (16)	2,606 (13)	955 (5)
Burden of Interest Payments (Interest Payments/Revenue Receipt Ratio)	0.14	0.12	0.11	0.10	0.08

### **1.11.1 Debt Stabilisation**

An important condition for Debt Sustainability is stabilisation in terms of debt/GSDP ratio. When the Quantum Spread and Primary Deficit are negative, the debt-GSDP ratio will be high indicating unsustainable levels of public debt and when the Quantum Spread and Primary Deficit are positive, debt-GSDP ratio will be low indicating sustainable levels of public debt.

Analysis of Primary Deficit together with the Quantum Spread revealed that their sums remained positive during the period 2007-12 indicating that the debt was stabilising.

### **1.11.2 Sufficiency of Non-Debt Receipts**

Another indicator of Debt Sustainability is the sufficiency of incremental Non-debt Receipts of the State to cover the incremental interest liabilities and incremental Primary Expenditure. Debt Sustainability could be facilitated if the incremental Non-debt Receipts could meet the incremental Interest Burden and the incremental Primary Expenditure. A positive resource gap strengthens the capacity of the State to sustain the debt in the medium to long run while a negative resource gap indicates otherwise.

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 the year 2010-11, Non-debt Receipts met not only the incremental requirement of the Primary Expenditure but also after meeting the incremental interest liabilities, resulted in a positive resource gap indicating the increasing capacity of the State to sustain its debt. During the period 2008-10 and in 2011-12, the incremental Non-debt Receipts were not enough to meet the incremental requirements of Primary Expenditure resulting in a negative resource gap during the year.

### **1.11.3 Net Availability of Funds**

- The Debt Redemption ratio indicated (**Appendix 1.4**) a fluctuating trend during the period 2007-12. It showed decreasing trend from 1.20 to 0.84 during 2007-08 to 2009-10 and increased to 0.87 in 2010-11 and 0.95 in 2011-12. During the year 2011-12, internal debt

redemption was 106 *per cent* of fresh debt receipts, redemption of GOI loans was 126 *per cent* while in case of other obligations, repayments were 88 *per cent* of fresh receipts. These trends indicated that the debt receipts were mainly utilised for repayment of debt.

- Out of receipts of ₹ 5,718 crore under Internal Debt during the year, the Government raised ₹ 4,000 crore from Market Loans at an average interest rate of 8.92 *per cent* per annum, ₹ 1,250 crore from NABARD and ₹ 441 crore from NSSF. The Government borrowed ₹ 1,032 crore from GOI. The receipt of Loans and Advances from GOI decreased from ₹ 1,095 crore in 2010-11 to ₹ 1,032 crore in 2011-12 mainly due to decrease in the receipt of Block Loans under 'Loans for State/Union Territories Plan Scheme'.
- Repayments of Internal Debt (₹ 6,087 crore) and Loans and Advances from GOI (₹ 1,297 crore) included ₹ 4,234 crore towards payment of interest (57 *per cent*) and only ₹ 3,150 crore (43 *per cent*) for repayment of principal. This indicated that a major portion of repayments were for payment of interest. As on 31 March 2012, 18 *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 1.22: Maturity Profile of State Debt for the years 2010-11 and 2011-12

(₹ in crore)

In Years	FY 2010-11				FY 2011-12			
	6003-Internal Debt Amount	6004-Loans and Advances Amount	Total Amount	Percentage of Repayment due to total debt	6003-Internal Debt Amount	6004-Loans and Advances Amount	Total Amount	Percentage of Repayment due to total debt
0-1	1,442.43	530.65	1,973.08	3.42	1,851.66	536.77	2,388.43	3.89
1-3	4,005.97	1,099.20	5,105.17	8.84	5,013.71	1,108.28	6,121.99	9.98
3-5	5,338.83	1,144.06	6,482.89	11.22	4,901.40	1,146.62	6,048.02	9.85
5-7	5,794.05	1,162.60	6,956.65	12.04	8,159.39	1,164.56	9,323.95	15.19
7-9	11,436.29	1,157.49	12,593.78	21.80	11,510.14	1,164.40	12,674.54	20.65
9-11	5,645.04	1,154.22	6,799.26	11.77	5,789.14	1,164.18	6,953.32	11.33
11-13	1,745.05	1,151.08	2,896.13	5.01	1,789.14	848.46	2,637.60	4.30
13-15	1,708.59	375.31	2,083.90	3.61	1,675.56	231.08	1,906.64	3.11
15 years and above	4,009.71	261.96	4,271.67	7.39	3,434.85	211.06	3,645.91	5.94
Misc.*	5,687.68	2,919.25	8,606.93	14.90	5,886.02	3,783.50	9,669.52	15.76
<b>Total</b>	<b>46,813.64</b>	<b>10,955.82</b>	<b>57,769.46</b>		<b>50,011.01</b>	<b>11,358.91</b>	<b>61,369.92</b>	

(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

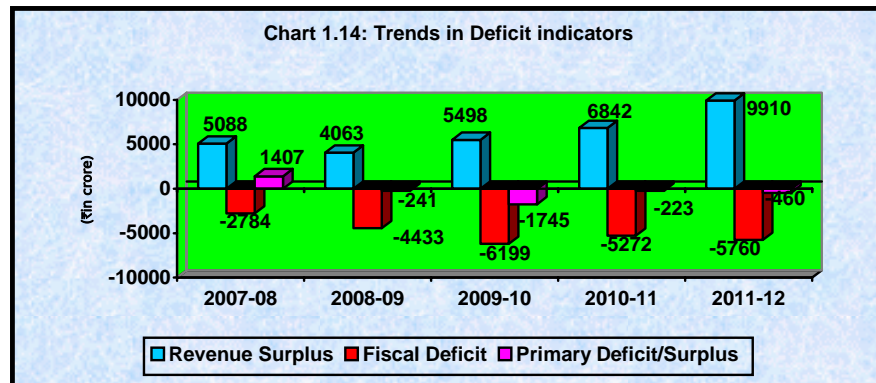
The maturity profile of State debt as given above indicates that the State Government will have to repay 20 *per cent* of its debt between one and five years, 47 *per cent* between five and 11 years and 13 *per cent* after 11 years and above. The maturity profile of repayment of about 16 *per cent* of State debt was not available as the information had not been received from the Government/Reserve Bank of India.

## 1.12 Fiscal Imbalances

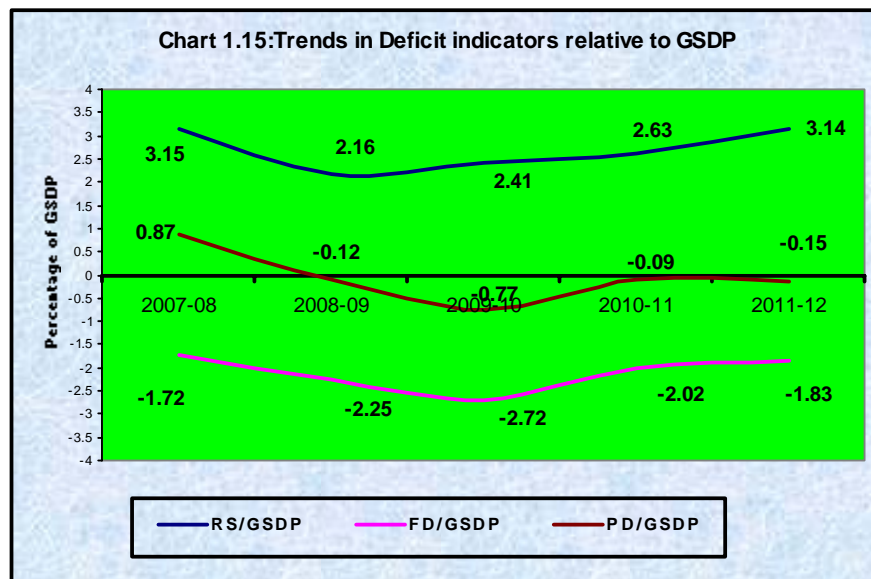
Three key fiscal parameters - Revenue, Fiscal and Primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit 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, Primary and Fiscal Deficits vis-à-vis the targets set under FRBM Act/Rules for the financial year 2011-12.

### 1.12.1 Trends of Deficits

Charts 1.14 and 1.15 present the trends in deficit indicators over the period 2007-12.



(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 the FRBM Act, 2005 was achieved by the State in the year 2004-05. Thereafter, the State maintained a Revenue Surplus which steadily increased from ₹ 5,088 crore in 2007-08 to ₹ 9,910 crore in 2011-12 except in 2008-09 when it decreased to ₹ 4,063 crore. The Revenue Surplus as a percentage of GSDP increased from 2.63 *per cent* in 2010-11 to 3.14 *per cent* in 2011-12, which was more than the BE of 1.45 *per cent*.
- The Fiscal Deficit, which represents the total borrowings of the Government and its total resource gap, increased from ₹ 2,784 crore in 2007-08 to ₹ 6,199 crore in 2009-10 and decreased to ₹ 5,760 crore during 2011-12. The Fiscal Deficit relative to GSDP decreased from 2.02 *per cent* in 2010-11 to 1.83 *per cent* in 2011-12, which remained within the three *per cent* ceiling prescribed in the BE, the norm recommended under the FRBM Act 2005, and also the norm prescribed by the Thirteenth Finance Commission.
- The Primary Surplus of ₹ 1,407 crore in 2007-08 turned into Primary Deficits during the period 2008-09 to 2011-12.

### 1.12.2 Components of Fiscal Deficit and its Financing Pattern

Fiscal Deficit is the total borrowing requirement of the State and is the excess of the Revenue Expenditure and Capital Expenditure including Loans and Advances over Revenue and Non-debt Capital Receipts. Decomposition of Fiscal Deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above Revenue and Non-debt receipts.

The financing pattern of the Fiscal Deficit has undergone a compositional shift as reflected in **Table 1.23**.

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

( ₹ in crore)

Particulars		2007-08	2008-09	2009-10	2010-11	2011-12
<b>Decomposition of Fiscal Deficit</b>						
<b>Fiscal Deficit</b>		<b>-2,784</b>	<b>-4,433</b>	<b>-6,199</b>	<b>-5,272</b>	<b>-5,760</b>
1	Revenue Surplus	5,088	4,063	5,498	6,842	9,910
2	Net Capital Expenditure	-6,822	-6,689	-7,903	-8,433	-9,032
3	Net Loans and Advances	-1,050	-1,807	-3,794	-3,681	-6,638
<b>Financing pattern of Fiscal Deficit</b>						
1	Market Borrowings	1,337	3,957	5,016	3,258	3,166
2	Loans from GOI	102	709	888	577	403
3	Special Securities issued to NSSF	128	-126	492	1,582	-167
4	Loans from Financial Institutions	128	51	-188	-488	198
5	Reserve Funds	-34	12	324	275	1,191
6	Small Savings, PF etc.	193	204	412	773	698
7	Deposits and Advances	274	237	705	1,678	783
8	Suspense and Miscellaneous	-18	-43	10	86	-28
9	Remittances	57	62	31	519	391
10	Cash balances increase(+)/ decrease(-)	-617	+630	+1,491	+2,988	+875

(Source: State Finance Accounts of the respective years)

In 2011-12, Market Borrowings by the State Government continued to finance a major portion of Fiscal Deficit though its share in financing Fiscal Deficit



decreased from 62 per cent in 2010-11 to 55 per cent in 2011-12. The share of NSSF loans, Deposits and Advances, Small Savings, Provident Funds etc., in financing Fiscal Deficit was lower in 2011-12 than in 2010-11. The share of Reserve Funds increased from ₹ 275 crore (five per cent) in 2010-11 to ₹ 1,191 crore (21 per cent) in 2011-12.

### 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 State's 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) did not have any asset backup. The bifurcation of the Primary Deficit (**Table 1.24**) indicates the extent to which the Deficit has been on account of enhancement in Capital Expenditure, which may be desirable to improve the productive capacity of the State's economy.

**Table 1.24: Primary Deficit/Surplus – bifurcation of factors**

( ₹ in crore)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure (CE)	Loans and Advances*	Primary Expenditure (PE)	Non-debt Receipt vis-à-vis Primary Revenue Expenditure	Primary Deficit (-)/ Surplus(+)	CE as per cent of PE
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)	9
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
2011-12	71,753	47,394	9,055	15,764	72,213	24,359	-460	12.54

\*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 2007-12 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 the whole/part of the Capital Expenditure. Although the surplus Non-debt receipts were enough to meet the Capital Expenditure in all the years, they were not enough to meet the entire Loans and Advances resulting in Primary Deficit during the period 2007-12 except in 2007-08.

## 1.13 Conclusion

### Management of Fiscal Imbalances and Resource Mobilisation

- The State continued to maintain Revenue Surplus during the year 2011-12. Revenue Surplus as a percentage of GSDP increased from

2.63 *per cent* in 2010-11 to 3.14 *per cent* in 2011-12, which was more than the BE of 1.45 *per cent*.

- Fiscal Deficit relative to GSDP decreased from 2.02 *per cent* in 2010-11 to 1.83 *per cent* in the current year and thus remaining within the three *per cent* ceiling prescribed in the BE and norms under the FRBM Act, 2005.
- In 2011-12, Revenue Receipts as a ratio of Total Expenditure stood at 81 *per cent*. The decreasing trend of the Fiscal Liabilities to Revenue Receipts ratio during the period 2007-12 indicated increasing reliance on Revenue Receipts to finance the Total Expenditure and decreasing dependence on borrowed funds.
- Actual realisation under Tax Revenue and Non-Tax Revenue was higher than the assessment made by the Thirteenth Finance Commission (36.81 and 52.37 *per cent*) and MTFPS projections (16.68 and 24.74 *per cent*).

#### ***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 the Thirteenth Finance Commission. Consequently, prudent debt management has to be ensured to keep the growth of liabilities in check to achieve the targets of the Thirteenth Finance Commission.
- Public Debt Receipts decreased by nine *per cent* showing improvement in the State's Debt management. The decrease in Public Debt Receipts was due to decrease in borrowings. Repayment of Public Debt increased by 25 *per cent*.
- In 2011-12, market borrowings by the State Government continued to finance a major portion of Fiscal Deficit though its share in financing Fiscal Deficit decreased from 62 *per cent* in 2010-11 to 55 *per cent* in 2011-12.

#### ***Net Availability of Funds***

During the year 2011-12, repayment of internal debt, GOI loans and other obligations and interest thereon constituted 95 *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 68 *per cent* during 2011-12. Revenue Expenditure increased by 17 *per cent* (Non Plan: 14 *per cent* and Plan: 24 *per cent*) while Capital expenditure increased by three *per cent*.

- The actual NPRE at ₹ 36,677 crore in 2011-12 was more than the normatively assessed level of the Thirteenth Finance Commission (36.06 *per cent*) but less than the projection made by the State Government in its MTFPS (four *per cent*).
- The overall expenditure on Salaries and Wages, Pensions, Interest Payments and Subsidies increased by 101 *per cent* during the period 2007-12. This expenditure during 2011-12 constituted 73 *per cent* of the NPRE.
- In terms of Plan and Non-Plan expenditure, the Plan expenditure increased by ₹ 3,592 crore and Non-Plan expenditure registered a growth of ₹ 16,390 crore over the previous year.
- The priority given to Social Sector Expenditure (SSE) and expenditure on Education Sector and Health Sector in Madhya Pradesh was not adequate in both 2008-09 and 2011-12 as their ratios to Aggregate Expenditure (AE) were lower than the General Category States' Average. The share of Capital Expenditure to Total Expenditure on Social and Economic services also registered a fall during the current year. Under the Social sector greater fiscal priority may be given to Education and Health by the Government.
- It was observed that there was decrease in the proportion of Capital Expenditure on Social and Economic services to Total Expenditure during the current year over the previous year.
- State Government short released ₹ 49.55 crore and ₹ 195.28 crore to ULBs and PRIs respectively compared to the recommendations of the Third State Finance Commission.

#### ***Incomplete projects***

- An expenditure of ₹ 9,128.68 crore (March 2012) remained unfruitful on 28 incomplete projects out of which the initial budgeted cost of 23 projects was revised by the Government involving a cost overrun of ₹ 9,390.04 crore.

#### ***Return on investment***

- The return (₹ 37.98 crore) on investment of ₹ 13,184 crore made by the Government ending March 2012 in Statutory Corporations, Government Companies, Co-operative Societies, etc. was a mere 0.29 *per cent* against its average borrowing cost of 6.74 *per cent* during 2011-12.
- Twenty six Government Companies and Statutory Corporations with an aggregate investment of ₹ 11,495.42 crore for the latest year for which accounts were finalised as on 31 March 2012 were running in losses which accumulated to ₹ 15,931.72 crore.

***Funds transferred directly from Government of India to State Implementing Agencies***

- The Central Government transferred ₹ 9,497.91 crore during 2011-12 directly to State Implementing Agencies for implementation of various schemes/programmes.

**1.14 Recommendations**

- Trends indicate that the increasing Fiscal Liabilities accompanied with negligible rates of return on Government investments may put fiscal stress on the State in the medium to long run unless suitable measures are initiated to make the investments commercially viable, compress the Non-Plan Revenue Expenditure and mobilise additional resources both through Tax and Non-Tax sources of revenue in the ensuing years.
- 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.
- 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.