

## CHAPTER-I

### FINANCES OF THE STATE GOVERNMENT

#### *Summary*

Revenue receipts (Rs 12456 crore) during 2003-04 showed an increase of 14 *per cent* as against four *per cent* increase in revenue expenditure (Rs 12711 crore) over the previous year, leading to decrease in revenue deficit (Rs 255 crore) by 80 *per cent*. The revenue deficit along with steep increase in capital expenditure (Rs 1549 crore) led to a fiscal deficit of Rs 4363 crore which was seven *per cent* of the Gross State Domestic Product (GSDP).

Only twenty-six *per cent* of revenue receipts came from the State's own resources, while Central tax transfers & grants-in-aid contributed nearly 74 *per cent* of the revenue receipts. The contribution of grants-in-aid from the Central Government increased to 16 *per cent* in 2003-04 over previous year. Contribution of Central Tax Transfers also increased from six *per cent* in 2002-03 to 16 *per cent* in 2003-04.

Among the sources of tax revenue, Sales Tax (57 *per cent*), Stamps and Registration Fees (14 *per cent*), State Excise (8 *per cent*) and Taxes on vehicles (7 *per cent*) were the principal contributors. Of non-tax revenue sources, Non-ferrous/mining and metallurgical industries (23 *per cent*) and interest receipts (7 *Per cent*) were principal contributors.

Overall expenditure of the State increased from Rs 13972 crore in 2002-03 to Rs 16829 crore in 2003-04 at a growth rate of 20.45 *per cent*. Revenue expenditure (Rs 12711 crore) constituted 76 *per cent* of total expenditure. The fiscal liabilities (Rs 37453 crore ) increased during 2003-04 with a growth rate of six *per cent* over previous year and stood at three times of the revenue receipts.

Interest payments increased by 11 *per cent* from Rs 3022 crore in 2002-03 to Rs 3343 crore in 2003-04 primarily due to continued reliance on borrowings for financing the deficit.

The fiscal deficit which represents the total borrowings of the Government and its total resource gap increased by 46 *per cent* from Rs 2988 crore in 2002-03 to Rs 4363 crore in 2003-04 due to increase in disbursement of loan and advances by 244 *per cent* from Rs 747 crore in 2002-03 to Rs 2569 crore in 2003-04. The ratio of revenue deficit to fiscal deficit was six *per cent* in 2003-04.

Large fiscal deficits year after year together with low or nil return on investment indicates continued fiscal imbalances. It is not uncommon for a State to borrow for increasing its social and economic infrastructure base. However, increasing ratios of fiscal liabilities to GSDP indicated that the State is gradually getting into a debt trap. In Bihar ratio of fiscal liabilities to GSDP was 63 *per cent* indicating unsustainability of debt in the long run.

#### *1.1 Introduction*

The Finance Accounts of the Government of Bihar are laid out in 19 statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in Box 1.1

**Box 1.1**

**Lay out of Finance Accounts**

Statement No. 1 presents the summary of transactions of the State Government-receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated fund, Contingency fund and Public account of the State.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2003-04.

Statement No. 3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No. 4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporation, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No. 8 depicts the summary of balances under Consolidated fund, Contingency fund and Public account as on 31 March 2004.

Statement No. 9 shows the revenue and expenditure under different heads for the year 2003-04 as a percentage of total revenue/expenditure.

Statement No. 10 indicates the distribution between the charge and voted expenditure incurred during the year.

Statement No. 11 indicates the detailed account of revenue receipts by minor heads.

Statement No.12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and centrally sponsored schemes separately and capital expenditure major head- wise.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2003-04.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc. up to the end of 2003-04.

Statement No.15 depicts the capital and other expenditure to the end of 2003-04 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts and disbursements and balances under heads of account relating to debt, contingency fund and public account.

Statement No. 17 presents detailed account of debt and other interest bearing obligations of the Government of Bihar.

Statement No. 18 provides the detailed account of loans and advances given by the Government of Bihar, the amount of loan repaid during the year, the balance as on 31 March 2004 and the amount of interest received during the year.

Statement No. 19 gives the details of earmarked balances of reserved funds.

### 1.2 *Trend of finances with reference to previous year*

Finances of State Government during the current year as compared to that of the previous year were as under:

(Rupees in crore)

2002-03	Sl. No.	Major Aggregates	2003-04
<b>10968</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4)</b>	<b>12456</b>
2761	2.	Tax Revenue	2890
261	3.	Non-Tax Revenue	320
7946	4.	Other Receipts	9246
<b>16</b>	<b>5.</b>	<b>Non-Debt Capital Receipts</b>	<b>10</b>
16	6.	Of which Recovery of Loans	10
<b>10984</b>	<b>7.</b>	<b>Total Receipts (1+5)</b>	<b>12466</b>
<b>10901</b>	<b>8.</b>	<b>Non-Plan Expenditure (9+11+12)</b>	<b>11683</b>
10901	9.	On Revenue Account	11627
3022	10.	Of which, Interest Payments	3343
negligible	11.	On Capital Account	56
-	12.	Loans and advances disbursed	-
<b>3071</b>	<b>13.</b>	<b>Plan Expenditure (14+15+16)</b>	<b>5146</b>
1354	14.	On Revenue Account	1084
970	15.	On Capital Account	1493
747	16.	Loans and advances disbursed	2569
<b>13972</b>	<b>17.</b>	<b>Total Expenditure (8+13)</b>	<b>16829</b>
<b>2988</b>	<b>18.</b>	<b>Fiscal Deficit (17-1-5)</b>	<b>4363</b>
<b>1287</b>	<b>19.</b>	<b>Revenue Deficit (9+14-1)</b>	<b>255</b>
<b>(-) 34</b>	<b>20</b>	<b>Primary Deficit(+)/Surplus(-) (18-10)</b>	<b>1020</b>

### 1.3 *Summary of Receipts and Disbursements for the year*

Table 1 summarises the finances of the State Government of Bihar for the year 2003-04 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements made during the year as emerging from **Statement-1** of Finance Accounts and other detailed statements.

**Table –1 SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2003-04**

(Rupees in crore)

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
<b>Section-A: Revenue</b>							
					<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
<b>10968.42</b>	<b>I. Revenue receipts</b>	<b>12455.56</b>	<b>12255.13</b>	<b>I. Revenue expenditure</b>	<b>11627.29</b>	<b>1083.54</b>	<b>12710.83</b>
2761.05	Tax revenue	2889.69	6574.14	General services	7151.13	24.33	7175.46
260.82	Non-tax revenue	320.38	3915.71	Social Services	3367.15	666.28	4033.43
6549.23	Share of Union Taxes/Duties	7627.87	1763.46	Economic Services	1105.25	392.93	1498.18
1397.32	Grants from Govt. of India	1617.62	1.82	Grants-in-aid / Contributions	3.76	--	3.76
<b>Section-B: Capital</b>							
-	II Misc. Capital Receipts	-	969.74	II Capital Outlay	56.30	1492.87	1549.17
15.58	III. Recoveries of Loans and Advances	10.45	747.19	III Loans and Advances disbursed	--	2568.92	2568.92
4189.80	IV Public debt receipts*	5068.51	1526.35	IV Repayment of Public Debt	--	--	2801.64
5584.15	V Public account receipts	7440.06	4822.34	V Public account – disbursements	--	--	5788.95
- 344.35	Opening Balance	92.85	92.85	Closing Balance	--	--	- 352.08
<b>20413.60</b>	<b>Total</b>	<b>25067.43</b>	<b>20413.60</b>	<b>Total</b>			<b>25067.43</b>

\* Includes net ways and means advances and over drafts

#### **1.4 Audit Methodology**

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statement of the Finance Accounts for the year 2003-04 and wherever necessary, show these in the light of time series data (**Appendix I to IV**) and periodic comparisons.

The key indicators adopted for analysing the State finances are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The erstwhile State of Bihar was bifurcated into the successor States of Bihar and Jharkhand with effect from 15 November 2000, as per the Reorganisation Act. Hence the indicators of the financial performances of Government take into account the Finance Accounts figures of the combined State of Bihar and Jharkhand upto 14.11.2000 and of the successor State of Bihar thereafter. The reporting parameters are depicted in Box 1.2.

**Box 1. 2**

**Reporting Parameters**

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to GSDP at current market prices. The new GSDP series as indicated in the Budget at a glance by the Finance Department of the State Government have been used.

For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

For most series a trend growth during 1999-2004 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in *Appendix V*.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account as defined in Box 1.3.

**Box 1.3 - State Government Funds and the Public Account**

<b>Consolidated Fund</b>	<b>Contingency Fund</b>	<b>Public Account</b>
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'the Consolidated Fund of the State' established under Article 266(1) of the Constitution of India.	Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.	Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.

Indicators of financial performance of the successor State of Bihar after 14 November 2000 are subject to variation after completion of allocation of assets and liabilities between the successor States of Bihar and Jharkhand.

### **1.5 Resources by volumes and sources**

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz. market loans, borrowings from financial institutions/commercial banks etc. and loans and advances from Government of India as well as accruals from the Public Account.

Table 2 shows that the total receipts of the State Government for the year 2003-04 were Rs 24974.58 crore, of which, the revenue receipts of the State Government were only Rs 12455.56 crore, constituting 49.87 per cent of the total receipts. The balance of receipts came from borrowings and Public Account receipts.

**Table 2 – Resources of Bihar**

*(Rupees in crore)*

<b>I Revenue Receipts</b>	<b>12456</b>
<b>II Capital Receipts</b>	<b>5079</b>
a Miscellaneous Receipts	-
b Recovery of Loans and Advances	10
c Public Debt Receipts	5069
<b>III Public Account Receipts</b>	<b>7440</b>
a Small Savings, Provident Fund, etc.	987
b Reserve Fund	-
c Deposits and Advances	3154
d Suspense and Miscellaneous	2079
e Remittances	1220
<b>Total Receipts</b>	<b>24975</b>

#### **1.5.1 Revenue receipts**

Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. Revenue receipts of the State increased from Rs 10659 crore in 1999-2000 (erstwhile composite state) to Rs 12456 crore in 2003-04 (successor state). The rate of growth of revenue receipts during 2003-04 over the previous year was 14 per cent, primarily due to 16 per cent growth in the State's share in Union taxes and duties and 16 per cent growth in the grants in aid from Government of India.

Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy is indicated in Table 3.

**Table 3: Revenue Receipts – Basic Parameters**(Values in Rupees in crore and others in *per cent*)

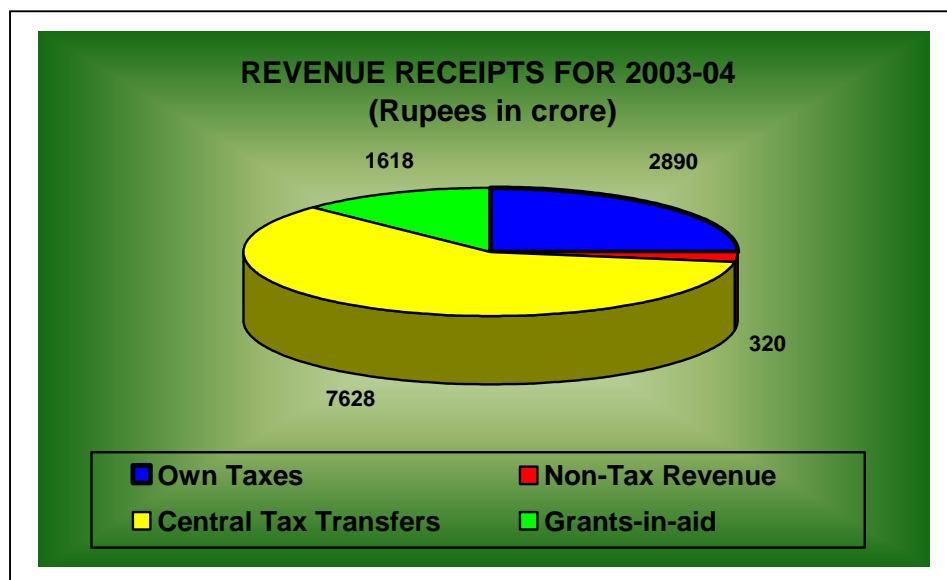
	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Receipts	10659	11177	9839	10968	12456
Own taxes*	28.94	25.13	23.57	25.17	23.20
Non-Tax Revenue*	10.94	6.37	2.91	2.38	2.57
Central Tax Transfers*	46.55	58.84	62.78	59.71	61.24
Grants-in-aid*	13.57	9.66	10.74	12.74	12.99
Rate of Growth of RR	14.66	4.86	(-)11.97	11.47	13.57
Revenue Receipts/GSDP	14.79	22.63	19.30	19.35	20.81
Revenue Buoyancy	1.666			1.026	2.42
GSDP Growth	8.80	(-) 31.49	3.25	11.18	5.60

Blank cell in the table represents "buoyancy in negative"

\* (As a percentage of revenue receipts)

Among the tax revenues, 16 per cent increase in taxes on goods and passengers, 18 per cent growth in taxes on vehicles and 20 per cent increase in stamps and registration fees were the principal contributors to the high growth in revenue during the year. A jump of 431 per cent in other administration service receipts, 20 per cent growth in receipts from non-ferrous mining and metallurgical industries and 145 per cent growth in other rural development programmes were major contributors to the increased non-tax revenue.

Sales tax was the major source of State's own tax revenue having contributed 57 per cent of the tax revenue followed by stamp duty and registration fee (14 per cent), taxes on goods and passengers (11 per cent) and state excise (8 per cent). Of non-tax revenue sources, non-ferrous mining and metallurgical industries (23 per cent) and interest receipts (7 per cent) were the principal contributors.



Non-tax revenue of the state increased from Rs 261 crore in 2002-03 to Rs 320 crore in 2003-04.

While on an average around 26 per cent of the revenue receipts had come from the State's own resources, central tax transfers and grants-in-aid together continued to contribute nearly 74 per cent of the total revenue.

As on 31 March 2004 arrears of revenue pending collection under eight<sup>1</sup> of the major heads of revenue as reported by the department were Rs 1356.87 crore out of which Rs 813.79 crore were outstanding for more than five years.

The source of receipts under different heads and GSDP during 1999-2004 is indicated in Table 4.

**Table 4 – Sources of Receipts: Trends**

*(Rupees in crore)*

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product (GSDP)
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
1999-2000	10659	12	3476	31087	45234	72083
2000-01	11177	11	3528	10462	25178	49383
2001-02	9839	13	3758	7719	21329	50987
2002-03	10968	16	4190	5584	20758	56688
2003-04	12456	10	5069	7440	24975	59862

## **1.6 Application of resources**

### **1.6.1 Trend of growth**

The total expenditure of the state increased marginally from Rs 16667 crore in 1999-2000 for the erstwhile composite State of Bihar to Rs 16829 crore in 2003-04 for the reorganised state of Bihar.

The total expenditure of the State, its trend and annual growth, the ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table 5 below.

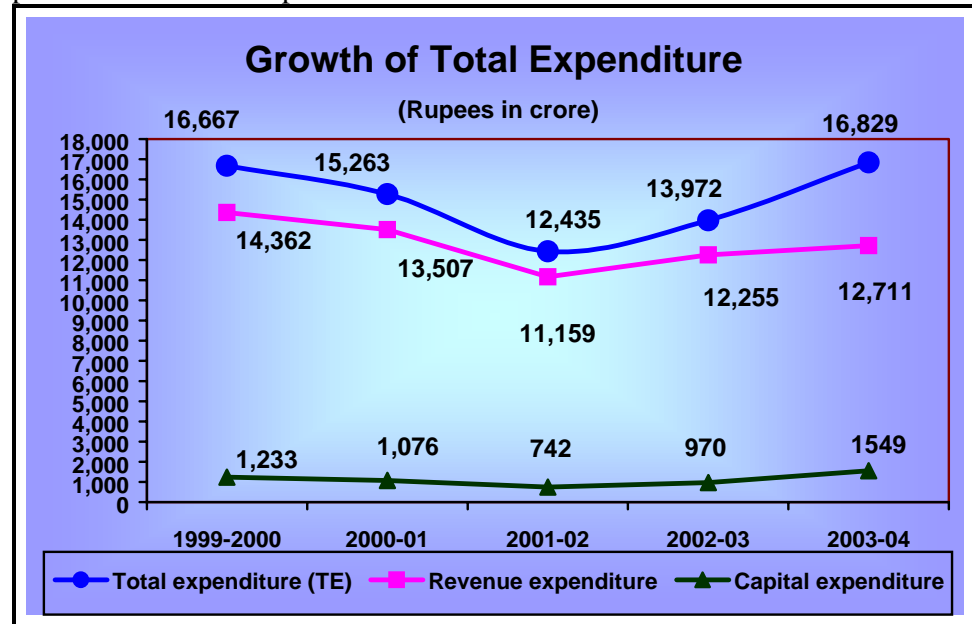
**Table 5: Total Expenditure – Basic Parameters (Value: Rupees in crore and others in per cent)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Total expenditure	16667	15263	12435	13972	16829
Rate of growth	28.54	(-) 8.42	(-) 18.53	12.36	20.45
TE/GSDP	23.12	30.91	24.39	24.65	28.11
Revenue receipts/TE	63.95	73.23	79.12	78.50	74.02
<b>Buoyancy of total expenditure with</b>					
GSDP	3.24	0.27	-5.70	1.10	3.65
Revenue receipts	1.95	(-) 1.73	1.55	1.08	1.51

<sup>1</sup> Taxes on sales and trade etc., Vehicles; Non-ferrous mining and metallurgical industries; State excise; Taxes and duties on electricity; Taxes on sugarcane; Entry tax; Entertainment tax.



The total expenditure of the State increased by 20.45 per cent during 2003-04 over the previous year. During 2003-04 revenue receipts accounted for 74.02 per cent of the total expenditure.



In terms of activities, the total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. The relative shares of these components in total expenditure are indicated in Table 6.

**Table 6: Components of expenditure – Relative Share (in per cent)**

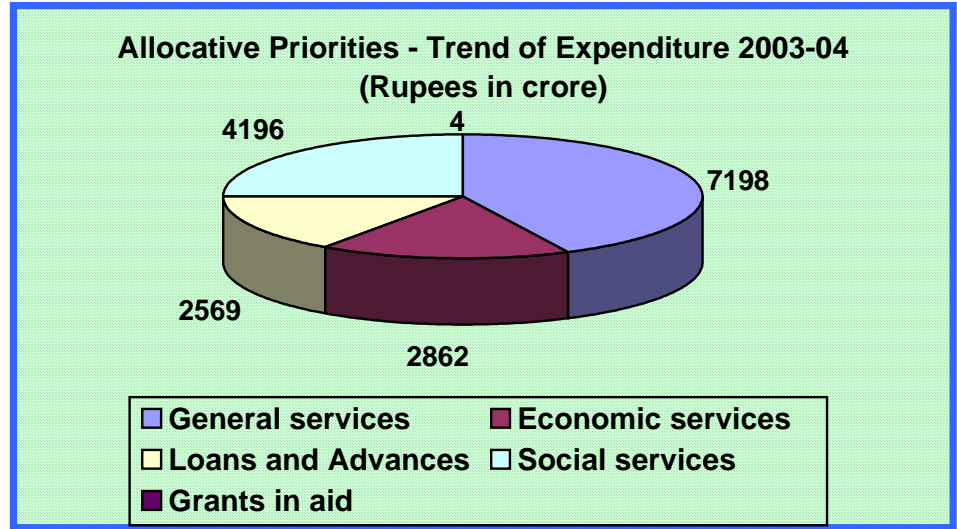
	2000-01	2001-02	2002-03	2003-04	2004-05
General Services	45.81	51.00	47.63	42.77	46.38
Social Services	32.05	28.75	29.04	24.93	29.06
Economic Services	17.66	15.94	17.96	17.01	17.89
Grants-in-aid	0.02	0.02	0.02	0.02	0.02
Loans and advances	4.46	4.29	5.35	15.27	6.65

The movement of the relative shares of these components of expenditure indicated that while the share of economic services and social services in total expenditure declined from 20.71 per cent and 33.48 per cent in 1999-2000 to 17.01 per cent and 24.93 per cent in 2003-04 respectively, the relative share of general services increased from 39.10 per cent to 42.77 per cent during the period. Loans and Advances increased from 6.43 per cent to 15.27 per cent during the same period.

### 1.6.2 Incidence of revenue expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is

usually incurred to maintain the current level of assets and services and does not represent a significant addition to the State's service network.



Revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts and its buoyancy with both GSDP and revenue receipts are indicated in Table 7 below:

**Table 7: Revenue Expenditure – Basic Parameters**  
(Value: Rupees in crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Expenditure	14362	13507	11159	12255	12711
Rate of Growth	24.21	(-) 5.95	(-) 17.38	9.82	3.72
RE/ GSDP	19.92	27.35	21.89	21.62	21.23
RE as <i>per cent</i> of total expenditure	86.17	88.50	89.74	87.71	75.53
RE as <i>per cent</i> to Revenue Receipts	134.74	120.85	113.42	111.73	102.05
<b>Buoyancy of Revenue Expenditure with</b>					
GSDP	2.75	0.19		0.88	0.66
Revenue Receipts	1.65		1.45	0.86	0.27

Blank cell in the table represents "buoyancy in negative"

Revenue expenditure of the State decreased from Rs 14362 crore in 1999-2000 (for the composite State) to Rs 12711 crore in 2003-04. Revenue expenditure was 75.53 *per cent* of total expenditure (Rs 16829 crore) during 2003-04.

Though the ratio of revenue expenditure to revenue receipts declined from 134.74 *per cent* in 1999-2000 to 102.04 *per cent* in 2003-04, the dependence of the State on borrowings for meeting its current expenditure continued.

◆ **Expenditure on pension payments**

Pension payments have increased by 83 *per cent* from Rs 1241 crore in 1999-2000 to Rs 2269 crore in 2003-04. Year-wise break-up of expenditure incurred on pension payments during 1999-2004 was as under:

**Table 8: Pension Expenditure**

(Rupees in crore)

Year	Expenditure	Percentage to total revenue
1999-2000	1241	11.64
2000-2001	2011	17.99
2001-2002	2273	23.10
2002-2003	2049	18.68
2003-2004	2269	18.22

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. The State Government had not constituted any fund to meet the fast rising pension liabilities of the retired State employees. Considering the rate at which pension liabilities are increasing in the last few years, reforms in the existing pension schemes assume critical importance.

◆ **Interest payments**

The Eleventh Finance Commission (August 2000) has recommended that as a medium term objective, States should endeavour to keep interest payment as a ratio to revenue receipts pegged at 18 *per cent*. It was however observed that interest payments as percentage of revenue receipts ranged between 26 and 28 during the last five years.

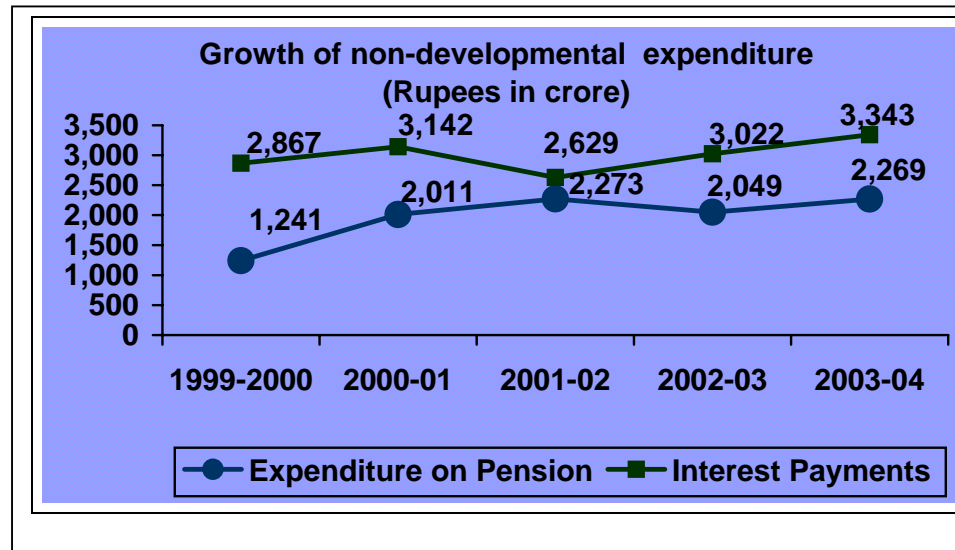
**Table 9**

Year	Interest Payment	Percentage of interest payment with reference to	
	(Rupees in crore)	Revenue Receipts	Revenue Expenditure
1999-2000	2867	26.90	19.96
2000-2001	3142	28.11	23.26
2001-2002	2629	26.72	23.56
2002-2003	3022	27.55	24.66
2003-2004	3343	26.84	26.30

In absolute terms, interest payments increased steadily by 16.60 *per cent* from Rs 2867 crore in 1999-2000 to Rs 3343 crore in 2003-04 primarily due to continued reliance on borrowings for financing the fiscal deficit. The interest payment consumed hundred percent of the State's own revenue, leaving nothing for meeting the development requirements of the state.

The State Government raised market loans of Rs 2125.78 crore at the weighted average rate of 6.14 *per cent* during the year, whereas the borrowings of Rs 2068.55 crore from National Small Saving Fund carried interest at the rate of 10.50 *per cent per annum* and the loan of Rs 819.71 crore from Government of India carried interest at the rate of 11 *per cent per annum*

from Government of India. Nearly 46 per cent of the outstanding market loans as of 31<sup>st</sup> March 2004 carried interest rate exceeding 11 per cent. Thus, the effective cost of borrowings on their past loans is much higher than the rate at which they are able to raise resources at present from the market. The maturity profile of the State Government market loans indicate that nearly 35 per cent of the total market loans are repayable within next five years while remaining loans are required to be repaid within 5 to 10 years. Thus, the rise in expenditure on interest payment is not likely to slow down in near future.



➤ **Under statement of interest payment on State Provident Fund**

Budgetary provisions of interest payment on provident fund were tentative and inadequate. These were not based on interest rates on provident fund fixed by Government. The amount of interest payment even on the basis of average of opening balance and closing balance during 1999-2004 should have been Rs 3583.79 crore instead of Rs 2211.92 crore reflected in the accounts as detailed below:

**Table 10**

(Rupees in crore)

Years	Admissible rate of interest on GPF (in per cent)	Amount of interest payment provided in the accounts	State Provident Fund		Average of OB and CB	Minimum amount of interest to be booked in the accounts at the admissible rate of interest	Difference of column 7 and column 3
			Opening Balance (OB)	Closing Balance (CB)			
1	2	3	4	5	6	7	8
1999-2000	12.00	536.75	6117.99	7115.21	6616.60	794.00	257.25
01.4.2000 – 14.11.2000	11.00	335.47	7115.21	7403.39	7259.30	499.08	163.61
15.11.2000 – 31.03.01	11.00	122.03	7403.39	7504.91	7454.15	307.48	185.45
2001-02	9.50	329.00	7504.91	7639.62	7572.27	719.37	390.37
2002-03	8.00	427.00	7639.62	7918.92	7779.27	622.34	195.34
2003-04	8.00	461.67	7918.92	8119.07	8018.99	641.52	179.85
Total		2211.92				3583.79	1371.87

(Calculated on average sum of opening and closing balance)

**1.7 Expenditure by allocative priorities**

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of the Finance Accounts reflect the allocative priorities of the State. Higher the ratio of these components to total expenditure, better is deemed to be the quality of expenditure.

Table 11 below gives the percentage share of these components of expenditure in State's total expenditure\*.

**Table 11: Quality of expenditure (per cent to total expenditure\*)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Plan Expenditure	17.79	13.13	13.52	17.57	18.07
Capital Expenditure	7.91	7.38	6.23	7.33	10.86
Developmental Expenditure	57.91	52.04	46.69	49.66	49.50

\* Total expenditure excludes expenditure on loans and advances.

Plan expenditure varied between 17.79 per cent of total expenditure in 1999-2000 to 18.07 per cent in 2003-04. Out of the developmental expenditure (Rs 7058.55 crore), Social Services (Rs 4196.87 crore) accounted for 59.46 per cent during the year. General Education, Health and Family Welfare and Water supply and Sanitation consumed 88 per cent of the expenditure in the social sector.

**Table 12  
Social Sector expenditure (Rupees in crore)**

Major Heads	1999-2000	2000-01	2001-02	2002-03	2003-04
Education, Sports, Art and Culture	3916.89	3288.06	2501.70	2750.20	2875.92
Medical and Public Health	786.36	680.18	518.61	571.64	539.03
Water Supply and Sanitation, Housing and Urban Development	392.80	264.88	153.33	294.13	276.23
<b>Total</b>	<b>5096.05</b>	<b>4233.12</b>	<b>3173.64</b>	<b>3615.97</b>	<b>3691.18</b>

Similarly, the expenditure on Economic Services (Rs 2861.68 crore) accounted for 40.54 per cent of the developmental expenditure. Of this, Rural Development (Rs 1094.97 crore), Irrigation and Flood Control (Rs 840.45 crore) and Transport (Rs 266.14 crore) accounted for 76.93 per cent of the expenditure on economic sector.

**Table 13  
Economic Sector expenditure (Rupees in crore)**

Major Heads	1999-2000	2000-01	2001-02	2002-03	2003-04
Rural Development	1343.65	992.92	814.74	1126.55	1094.97
Irrigation and Flood Control	1052.54	827.63	624.25	666.62	840.45
Transport	426.15	331.87	127.75	285.05	266.14
<b>Total</b>	<b>2822.34</b>	<b>2152.42</b>	<b>1566.74</b>	<b>2078.22</b>	<b>2201.56</b>

In addition, the Government of Bihar paid Rs 2568.92 crore as loans and advances during the year. Of this, Rs 2468.30 crore (96 per cent) was paid to the Bihar State Electricity Board (BSEB).

**1.7.1 Financial assistance to local bodies and other institutions**

Autonomous bodies and authorities perform non-commercial functions and public utility services. These bodies and authorities receive substantial financial assistance from Government. Government also provides substantial financial assistance to other institutions such as those registered under the State Co-operative Societies Act, the Companies Act, 1956, etc. to implement various programmes of Government. The quantum of assistance provided to different bodies etc., during the period of five years ending 2003-04 was as follows:

**Table 14**

*(Rupees in crore)*

Sl. No.	Bodies/authorities, etc.	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Universities and Educational Institutions	518.65	463.00	369.13	461.13	545.94
2.	Municipal Corporations and Municipalities	115.44	57.18	28.99	99.98	83.71
3.	Zila Parishads and Panchayati Raj Institutions	6.93	2.90	106.60	292.34	133.92
4.	Development Agencies	34.76	61.32	12.87	34.81	3.87
5.	Other Institutions (including statutory bodies)	29.29	49.20	47.05	133.45	20.99
	<b>Total</b>	<b>705.07</b>	<b>633.60</b>	<b>564.64</b>	<b>1021.71</b>	<b>788.43</b>
	Percentage increase (+) / decrease (-) over previous year	(-) 17.94	(-) 10.14	10.88	80.94	(-) 22.83

**1.7.2 Delay in furnishing utilisation certificates**

The financial rules of Government require that where grants are given for specific purposes, certificates of utilisation (UCs) are to be obtained by the departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (AG) within 15 months from the date of sanction of the grant unless specified otherwise.

Of UCs due in respect of grants-in-aid of Rs 1664.88 crore paid upto 2003-04, UCs for only Rs 105.30 crore were furnished to the Accountant General by 30 June 2004 and UCs for Rs 1559.58 crore were in arrears. Department-wise and age-wise break up is given in **Appendix VI**.

**1.7.3 Delay in submission of accounts by Autonomous Bodies**

The status of submission of accounts by the autonomous bodies and submission of Audit Reports thereon to the State Legislature is indicated in **Appendix VII**.

**1.8 Assets and Liabilities**

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement 16 read with details in Statement 17 of Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. Appendix-1 presents an abstract of such liabilities and assets as on 31 March 2004 compared with the corresponding position on 31 March 2003. While the liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Fund, the assets comprise mainly the capital expenditure and loans and advances given by the State Government.

The liabilities of Government of Bihar depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to serving/retired State employees and guarantees/ letters of comforts etc. issued by the State Government.

**Appendix-IV** depicts the Time Series Data on State Government Finances for the period 1999-2004.

**1.8.1 Incomplete projects**

As per information received from the State Government, as of 31 March 2004, there were 22 incomplete projects in which Rs 1174 crore were blocked. (Refer: **Appendix -VIII**)

**1.8.2 Investments and returns**

As on 31 March 2004 Government had invested Rs 700.01 crore in Statutory Corporations, Joint Stock Companies and Co-operatives. Government's return on this investment was negligible as indicated in Table 15 below:

**Table 15: Return on Investment**

Year	Investment at the end of the year	Return	Percentage of return	Weighted rate of interest on Government market loans
	(Rupees in crore)			
1999-2000	646.90	1.10	0.17	11.38
2000-2001	685.47	Rs 4500 Only	nil	11.41
2001-2002	686.67	0.01	nil	9.00
2002-2003	694.34	0.02	nil	7.20
2003-04	700.01	0.04	0.01	6.14

**1.8.3 Loans and advances by State Government**

In addition to its investment, Government has also been providing loans and advances to many organisations. Total outstanding balance of the loans advanced was Rs 10764 crore as on 31 March 2004 (Table 16). Interest received against these advances was meagre varying from 0.12 per cent to 0.65 per cent of the outstanding loans and advances during 1999-2004.

**Table 16: Average Interest Received on Loans Advanced by the State Government**  
(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening Balance	5223.26	6282.97	6952.84	7473.60	8205.21
Amount advanced during the year	1071.79	680.46	533.71	747.19	2568.92
Amount repaid during the year	12.08	10.59	12.95	15.58	1045
<b>Closing Balance</b>	<b>6282.97</b>	<b>6952.84</b>	<b>7473.60</b>	<b>8205.21</b>	<b>10763.68</b>
Net Addition (+) / Reduction (-)	1059.71	669.87	520.76	731.61	2558.47
Interest Received	22.31	8.58	11.75	53.01	23.08
Interest received as <i>per cent</i> to outstanding Loans and advances	0.36	0.12	0.16	0.65	0.21

**1.8.4 Commercial activities**

***Lack of accountability for the use of public funds in departmental commercial undertakings***

Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are to prepare *pro forma* accounts in the prescribed format annually showing the results of financial operation so that the Government can assess the results of their working. The Head of Departments in the Government are to ensure that the undertakings, which are funded through the budget, prepare the accounts on timely basis and submit the same to the Accountant General for audit.

As of March 2004, there were 29 departmentally managed Commercial/Quasi-Commercial undertakings in the State. Of these 26 undertakings detailed in **Appendix-IX** had not prepared proforma accounts since their inception. The matter had been taken up with the concerned administrative departments and the Finance Department from time to time.

The Proforma Accounts of three other undertakings were in arrears for varying periods ranging from 16 to 26 years as of March 2003. Relevant details are furnished in **Appendix-X**.

It was seen that none of the undertakings was maintaining its commercial accounts (accounts in double entry system) as prescribed in respect of departmentally managed Commercial/Quasi-commercial undertaking.



**1.8.5 Management of cash balances**

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from the Reserve Bank of India has been put in place. Bihar had the WMA limit of Rs 305 crore from March 3, 2003.

**Table 17: Ways and Means advances and overdrafts of the State and interest paid thereon**

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
<b>Ways and Means Advances</b>					
Taken in the Year	3076.07	2144.41	2593.23	7.12	1708.45
Outstanding	NIL	NIL	NIL	NIL	NIL
Interest paid	6.42	10.70	7.86	0.13	3.71
<b>Overdraft</b>					
Taken in the Year	109.93	1224.55	3229.53	NIL	1142.89
Outstanding	NIL	NIL	NIL	NIL	NIL
Interest paid	0.03	1.36	3.94	NIL	1.42
Number of Days the State was in overdraft	2	63	123	NIL	44

**1.8.6 Undischarged Liabilities****Fiscal liabilities – public debt and guarantees**

The Constitution of India provides that a State may borrow within the territory of India, upon the security of its consolidated fund within such limits as may from time to time be fixed by an Act of Legislature. However, no such law was passed by the State. Statement 4 read with Statements 16 and 17 of Finance Accounts show the year-end balances under Debt, Deposit and Remittances heads from which the liabilities are worked out. It would be observed that the overall fiscal liabilities of the State increased from Rs 30612 crore in 1999-2000 to Rs 37453 crore in 2003-04. These liabilities as ratio to GSDP increased from 42.50 per cent in 1999-2000 to 62.60 per cent in 2003-04 and stood at three times of its revenue receipts and 11.67 times of its own resources comprising its own tax and non-tax revenues. Table 18 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and buoyancy of these liabilities with respect to these parameters.

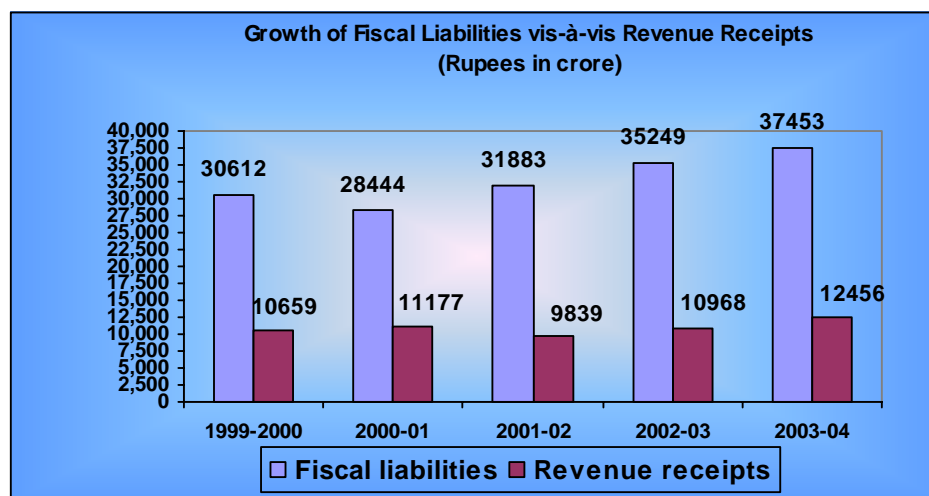
**Table 18: Fiscal Imbalances–Basic Parameters**

(Rupees in crore and Ratios in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Fiscal Liabilities	30612	28444	31883	35249	37453
Rate of growth	14.11	(-) 7.08	12.09	10.56	6.25
<b>Ratio of Fiscal Liabilities to</b>					
GSDP	42.50	57.60	62.50	62.20	62.60
Revenue Receipts	287.20	254.50	324.00	321.37	300.70
Own Resources	720.01	807.80	1223.90	1166.46	1166.80
<b>Buoyancy of Fiscal Liabilities to</b>					
GSDP	1.60	0.22	3.72	0.94	1.12
Revenue Receipts	0.96			0.92	0.46
Own Resources	1.28	0.41		0.66	1.00

Blank cell in the table represents "buoyancy in negative"

In addition to these liabilities, Government had guaranteed loans taken by various Corporations and others, which in 2003-04 stood at Rs 470.72 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans, there is an obligation on the State to honour these commitments. Currently, the fiscal liabilities including the contingent liabilities exceed over three times the revenue receipts of the State. The direct fiscal liabilities of the State have grown much faster as compared to its rate of growth of GSDP.



Another important indication of debt sustainability is net availability of the funds after payment of the principal on account of the earlier contracted liabilities and interest. Table 19 below gives the position of the receipts and repayments of internal debt over the last five years. The net funds available on account of the internal debt and loans and advances from Government of India after providing for the interest and repayments declined from 9.93 per cent in 1999-2000 to minus 12 per cent during 2003-04.

**Table 19: Net Availability of Borrowed Funds**

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
<b>Internal Debt*</b>					
Receipts	427	2045	2681	2935	4249
Repayments (Principal + Interest)	948	1029	987	923	1766
Net Funds available	(-) 521	1016	1694	2012	2483
Net Funds available ( <i>per cent</i> )	(-) 122.00	50.00	63	69	58
<b>Loans and Advances from Government of India</b>					
Receipts	3046	1246	1077	1255	820
Repayments (Principal + Interest)	2180	2264	1926	3195	3894
Net Funds available	866	(-) 1018	(-) 849	(-) 1940	(-) 3074
Net Funds available ( <i>per cent</i> )	28	(-) 82	(-) 79	(-) 155	(-) 375
<b>Total Public Debt</b>					
Receipts	3473	3291	3758	4190	5069
Repayments (Principal + Interest)	3128	3293	2913	4118	5660
Net Funds available	345	(-)2	845	72	(-)591
Net Funds available ( <i>per cent</i> ) of total receipts	9.93	(-)0.06	22.49	1.72	(-)12

\* Internal debt excluding ways and means advances.

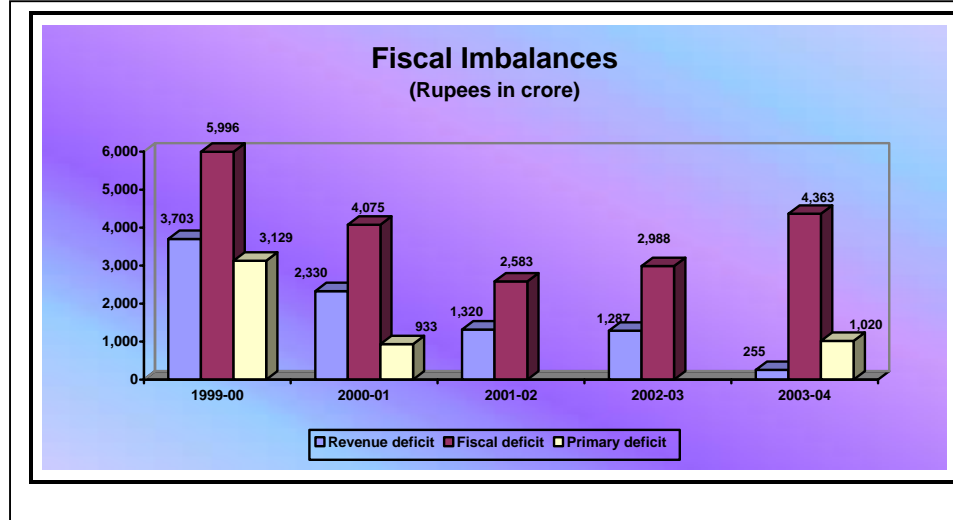
**1.9 Management of deficits****1.9.1 Fiscal imbalances**

The deficits in Government accounts represent 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 and applied are important pointers to fiscal health.

The revenue deficit (Statement 1 of Finance Account) of the State, which is the excess of its revenue expenditure over revenue receipts, decreased from Rs 3703 crore in 1999-2000 to Rs 255 crore in 2003-04. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs 2583 crore in 20001-02 to Rs 4363 crore in 2003-04. The State also had the primary deficit decreasing from Rs 3129 crore in 1999-2000 to Rs 1020 crore in 2003-04. These deficits however, do not include the short booking of interest payment on State Provident Fund of at least Rs 1372 crore during 1999-2004.

**Table 20: Fiscal Imbalances – Basic Parameters**(Value: Rupees in crore and Ratios in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue deficit	3703	2330	1320	1287	255
Fiscal deficit	5996	4075	2583	2988	4363
Primary Deficit (-)/ Surplus (+)	3129	933	(-) 46	(-) 34	1020
RD/GSDP	5.10	4.70	2.60	2.27	0.43
FD/GSDP	8.30	8.30	5.10	5.27	7.29
PD/GSDP	4.30	1.90	(-)0.10	(-)0.06	1.70
RD/FD	62	57	51	43	6



The ratio of revenue deficit to fiscal deficit had decreased from 62 per cent 1999-2000 to six per cent in 2003-04. As proportion to GSDP, revenue deficit had decreased to 0.43 per cent and fiscal deficit to 7.29 per cent in 2003-04.

### 1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 21 below presents a summarized position of Government finances over 1999-2004, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications highlight areas of concern and capture its important facets.

The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP. The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. These ratios show an improvement during 1999-2004 indicating improving mobilization of resources and its sustainability.

Various ratios concerning expenditure management of the State indicate the quality of its expenditure and the sustainability of these in relation to its resource mobilisation. The ratio of revenue expenditure to total expenditure has remained steady around 86-90 per cent up to 2002-03 but declined in 2003-04 to 75.53 per cent. The developmental expenditure to total expenditure ratio has steadily declined from 57.91 per cent in 1999-2000 to 46.69 per cent in 2001-02 with an increase to 49.50 per cent in 2003-04. The capital expenditure as percentage to total expenditure varied between 6.23 per cent and 10.86 per cent during 1999-2004.

**Table 21: Ratios of Fiscal Efficiency (in per cent)**

Fiscal Ratios	1999-2000	2000-01	2001-02	2002-03	2003-04
<b>Resource Mobilization</b>					
Revenue Receipts/GSDP	14.79	22.63	19.30	19.35	20.81
Revenue Buoyancy	1.67			1.02	2.42
Own Tax/GSDP	4.28	5.69	4.55	4.87	4.83
<b>Expenditure Management</b>					
Total Expenditure/GSDP	23.12	30.91	24.39	24.65	28.11
Revenue Receipts/ total expenditure	63.95	73.23	79.12	78.50	74.02
Revenue expenditure/Total expenditure	86.17	88.50	89.74	87.71	75.53
Capital expenditure	7.91	7.38	6.23	7.33	10.86
Development expenditure/Total expenditure (RE+CE)	57.91	52.04	46.69	49.66	49.50
Buoyancy of TE with RR	1.95		1.55	1.08	1.51
Buoyancy of RE with RR	1.65		1.45	0.86	0.27
<b>Management of Fiscal Imbalances</b>					
Revenue Deficit (Rs in crore)	3703	2330	1320	1287	255
Fiscal Deficit (Rs in crore)	5996	4075	2583	2988	4363
Primary Deficit (Rs in crore)	3129	933	(-) 46	(-) 34	1020
Revenue Deficit/Fiscal Deficit ( Per cent)	62	57	51	43	6
<b>Management of Fiscal Liabilities</b>					
Fiscal Liabilities/GSDP	42.50	57.60	62.50	62.20	62.60
Fiscal Liabilities/RR	287.20	254.50	324.00	321.37	300.70
Buoyancy of FL with RR	0.96			0.92	0.46
Buoyancy of FL with OR	1.28	0.41		0.66	1.00
Interest Spread	(-)1.18	(-)42.13	(-)5.47	2.18	- 3.59
Net Fund available	9.93	(-)0.06	22.49	1.72	(-)12
<b>Other Fiscal Health Indicators</b>					
Return on Investment	1.10	NIL	0.01	0.02	0.04
BCR (Rs in crore)	(-) 3418	(-) 2387	(-) 1246	(-) 1039	(-)638
Financial Assets/Liabilities	64	73	72	72	72

Blank cell in the table represents "buoyancy in negative"

## Conclusions

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, large fiscal deficit year after year, together with low or nil return on investments indicate that the State is gradually getting into a debt trap. The State's continuous low or nil return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little to it. Investments in loss making companies are not sustainable. The ratio of State's total financial assets to liabilities has not improved indicating that liabilities are continuing without adequate asset back up. This indicates that either the State has to generate more revenue out of its existing assets or need to provide from its current revenues for servicing its debt obligations. The BCR plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces availability of fund for additional infrastructure support and other revenue generating investment. The balance of current revenue of the State has also continued to be negative.

*Audit Report (Civil) for the year ended 31st March 2004*

<b>Revenue Receipt (RR)</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
Revenue Expenditure	10968	12456	15714
Revenue Deficit	12255	12711	14638
RD as % of RR	-1287	-255	+1076
RD as % of RE	-10.50	-2.00	+8.46

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
Own tax	2761	2890	3347
Non tax	261	320	418
Share of Union Tax/Duties	6549	7628	9117
Grants for GOI	1397	1618	2832
Total	10968	12456	15714

On an average, State own resources (own tax + Non tax Revenue) contributed 24 per cent of Revenue Receipt.

Internal Debt (excluding Ways & Means Advances from RBI Borrowings)			
Repayment (Principal + Interest)			
Net Fund available (% in bracket)			
Loan and advance from GOI Borrowings			
Repayment (Principal + Interest)			
Net Fund available %			
Total Public Debt (excluding ways & Means Advance from RBI Borrowings)			
Repayment			

Net fund available (% in bracket)			
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