

CHAPTER I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This Chapter discusses the financial position of the Government of Madhya Pradesh, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the Chapter also contains a section on the analysis of indicators of financial performance of the Government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this Chapter are described in **Appendix I**.

In terms of the Madhya Pradesh Re-organisation Act 2000 (No.28 of 2000), 16* districts of the erstwhile State of Madhya Pradesh were transferred to form the new State of Chhattisgarh on 1 November 2000, the 'appointed day'. The apportionment of assets and liabilities of the composite State of MP immediately prior to the 'appointed day' as also the other financial adjustments are being done in each case in accordance with the provisions of the Act, *ibid*. The actual progress achieved in this direction is indicated in **Appendix IA**.

1.2 Financial position of the State

In the government accounting system, comprehensive accounting of the fixed assets like land and buildings etc., owned by 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 by the Government. *Exhibit I* gives an abstract of such liabilities and the assets as on 31 March 2002, compared with the corresponding position on 31 March 2001 as well as that on 31 October 2000, of the erstwhile composite State of Madhya Pradesh. While the liabilities consist mainly of internal borrowings, loans and advances from the Government of India (GOI), receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. The financial operation of the State Government led to a 17.73 per cent growth in its financial liabilities as against the assets which grew by only 4.78 per cent showing on overall deterioration in the fiscal management of the Government.

Note: As the State in its present form came into existence on 01 November 2000, in terms of Madhya Pradesh Re-organisation Act 2000 (No. 28 of 2000), all data and figures quoted in this Chapter and elsewhere, for and up to the period ended 31 October 2000, pertain to the erstwhile composite State of M.P., unless the context provides otherwise.

*
Bastar, Bilaspur, Dantewada, Dhamtari, Durg, Janjgir-Champa, Jashpur, Kanker, Kawardha, Korba, Koriya, Mahasamund, Raigarh, Raipur, Rajnandgaon and Surguja.

During the year, the State Government incorrectly classified expenditure of Rs.33.61 crore being grants-in-aid to local bodies/institutions under capital outlay instead of Revenue (see paragraph 1.6). This had the effect of overstatement of capital outlay and understatement of revenue deficit to that extent.

EXHIBIT I
SUMMARISED FINANCIAL POSITION OF THE
GOVERNMENT OF MADHYA PRADESH AS ON 31 MARCH 2002

(Rupees in crore)

As on 31.10.2000 [⊗]	As on 31.03.2001	Liabilities	As on 31.03.2002
7628.95	5967.51	Internal Debt-	7648.43
4709.69	3794.21	Market Loans bearing interest	4473.38
5.39	3.70	Market Loans not bearing interest	2.98
775.61	645.95	Loans from other Institutions	845.84
256.87	--	Ways and Means Advances	-
145.53	--	Overdraft from Reserve Bank of India	-
1735.86	1523.65	Special Security issued to NSS fund of Central Government	2326.23
10606.50	7964.77	Loans and Advances from Central Government-	9043.18
526.47	365.27	Pre 1984-85 Loans	328.15
3441.82	2516.89	Non-Plan Loans	2468.10
6440.06	4932.36	Loans for State Plan Schemes	6090.57
61.30	43.91	Loans for Central Plan Schemes	42.14
136.85	106.34	Loans for Centrally Sponsored Plan Schemes	114.22
26.61	40.00	Contingency Fund	40.00
7371.50	6534.82	Small Savings, Provident Funds, etc.	6942.42
1872.19	1806.12	Deposits	2484.16
663.77	275.20	Reserve Funds	368.67
80.60	196.14	Suspense and Miscellaneous Balances	296.97
28250.12	22784.56		26823.83

Note: Apportionment of assets and liabilities except Public debt of the composite state of Madhya Pradesh immediately prior to the appointed day i.e. 1 November 2000, is yet to be finalized.

[⊗] Of the erstwhile composite State of Madhya Pradesh.

As on 31.10.2000 [⊗]	As on 31.03.2001	Assets	As on 31.03.2002
15760.57	14862.15	Gross Capital Outlay on Fixed Assets -	16332.79^{\$}
1642.14	1679.08	Investments in shares of Companies, Corporations, etc.	1687.07
14118.43	13183.07	Other Capital Outlay	14645.72 ^{\$}
2883.18	2990.98	Loans and Advances -	2001.91
1819.17	2010.84	Loans for Power Projects	677.76
995.85	914.27	Other Development Loans	1263.66
68.16	65.87	Loans to Government servants and Miscellaneous loans	60.49
--	--	Reserve Fund Investments	--
13.88	10.32	Advances	7.04
665.60	631.59	Remittance Balances	471.59
17.11	(-)223.57	Cash -	331.03
(-)68.26	(-)28.22	Cash in Treasuries and Local Remittances	(-)3.22
38.51	(-)546.29	Deposits with Reserve Bank	303.55
21.86	12.19	Departmental Cash Balance including permanent cash imprest	12.50
25.00	338.75	Cash Balance Investments and investment of earmarked funds	18.20
8909.78	4513.09	Deficit on Government account -	7679.47
7108.32	4167.53	(i) Accumulated deficit brought forward	4513.09
1801.46	344.46	(ii) Revenue Deficit of the current year	3157.69
--	--	(iii) Inter-State Settlement	5.56
--	1.10	(iv) Amount closed to Government account	3.13 [Ⓟ]
28250.12	22784.56		26823.83

⊗ *Of the erstwhile composite State of M.P.*

\$ *Grants-in-aid of Rs.33.61 crore to local bodies/ institutions was misclassified under capital (Plan) expenditure instead of non plan Revenue expenditure (see paragraph 1.6).*

Ⓟ *Includes Rs.3.08 crore proforma transfer of balances relating to Revenue Reserve Funds, Investment Account to State of Chhattisgarh.*

EXHIBIT II
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2001-02

(Rupees in crore)

Receipts						Disbursements										
April-October 2000 [⊗]	November 2000 to March 2001	Total		2001-02	April- October 2000 [⊗]			November 2000- March 2001			Grand total		2001-02			
					Non-plan	Plan	Total	Non-plan	Plan	Total			Non-plan	Plan	Total	
				Section-A: Revenue												
7136.48	5702.82	12839.30	I.	Revenue receipts	11211.08								I. Revenue expenditure			
3224.57	2415.01	5639.58		- Tax Revenue	4678.98	3355.84	7.74	3363.58	1922.08	36.99	1959.07	5322.65	General Services	4874.90	174.59	5049.49
						2795.95	843.51	3639.46	1425.39	771.61	2197.00	5836.46	Social Services	3265.83	1317.06	4582.89
1020.20	704.13	1724.33		- Non tax revenue	1601.68	1582.72	228.31	1811.03	751.33	187.51	938.84	2749.87	-Education, Sports, Arts and Culture	1829.30	280.74	2110.04
						353.17	158.22	511.39	209.75	110.85	320.60	831.99	-Health and Family Welfare	417.74	249.15	666.89
2317.94	1637.57	3955.51		-State's share of Union Taxes	3439.30	201.35	148.65	350.00	98.63	234.68	333.31	683.31	-Water Supply, Sanitation Housing and Urban Development	224.28	311.44	535.72
34.82	154.58	189.40		-Non Plan grants	322.35	10.76	--	10.76	10.46	0.07	10.53	21.29	- Information and Broadcasting	15.55	1.08	16.63
						453.94	195.59	649.53	148.44	134.79	283.23	932.76	-Welfare of Scheduled Castes/Scheduled Tribes/Other Backward classes	421.92	269.78	691.70
244.47	458.72	703.19		-Grants for State Plan Schemes	649.08	31.80	8.00	39.80	16.71	5.58	22.29	62.09	-Labour and Labour Welfare	35.65	17.29	52.94
						157.15	104.73	261.88	186.92	97.99	284.91	546.79	-Social Welfare and Nutrition	313.55	187.41	500.96
294.48	332.81	627.29		-Grants for Central and Centrally Sponsored Plan Schemes	519.69	5.07	--	5.07	3.14	0.14	3.28	8.35	-Others	7.84	0.17	8.01

[⊗] Pertains to erstwhile composite State of M.P.

						1219.09	365.83	1584.92	1055.61	657.07	1712.68	3297.60	Economic Services	3339.06	1024.43	4363.49
						542.58	153.89	696.47	311.20	206.92	518.12	1214.59	-Agriculture and Allied Activities	703.14	404.48	1107.62
						250.05	116.71	366.76	158.02	378.23	536.25	903.01	-Rural Development	145.71	473.29	619.00
						--	--	--	--	--	--	--	-Special Areas Programme	-	-	-
						165.83	67.14	232.97	73.07	29.96	103.03	336.00	-Irrigation and Flood control	191.33	69.78	261.11
						--	1.68	1.68	393.58	15.23	408.81	410.49	-Energy	1999.06	37.95	2037.01
						28.95	23.91	52.86	12.76	22.57	35.33	88.19	-Industries and Minerals	29.96	24.17	54.13
						206.75	1.09	207.84	86.56	0.31	86.87	294.71	-Transport	244.86	1.48	246.34
						0.82	0.40	1.22	0.50	0.93	1.43	2.65	-Science, Technology and Environment	00.96	1.13	2.09
						24.11	1.01	25.12	19.92	2.92	22.84	47.96	-General Economic Services	24.04	12.15	36.19
						349.97	--	349.97	178.53	--	178.53	528.50	Grants-in-aid and contributions	372.90	--	372.90
1801.45	344.46	2145.91	II.	Revenue deficit carried over to Section B	3157.69	--	--	--	--	--	--	--	II-Revenue surplus carried over to Section B			
8937.93	6047.28	14985.21		Total	14368.77	7720.85	1217.08	8937.93	4581.61	1465.67	6047.28	14985.21	Total	11852.69*	2516.08	14368.77*
				Section-B												
296.72	61.68	358.40	III	Opening cash balance including Permanent Advances and Cash Balance investment	(-)226.65 [⊕]			--			--	--	III.Opening overdraft from RBI			
								--			--	--	IV. Capital outlay	4.55	1466.09	1470.64*

*

Grants-in-aid of Rs.33.61 crore to local bodies/ institutions was misclassified under plan capital expenditure instead of non-plan Revenue expenditure.

⊕

Differs from last years closing balance by Rs.3.08 crore (Rs.30797066) due to proforma transfer to Chhattisgarh State as per Finance Account.

Audit Report (Civil) for the year ended 31 March 2002

			IV	Miscellaneous Capital receipts		0.37	4.91	5.28	--	10.58	10.58	15.86	General Services	0.89	20.90	21.79
						0.19	37.56	37.75	1.40	96.63	98.03	135.78	Social services	0.60	170.98	171.58
						--	1.16	1.16	--	11.50	11.50	12.66	-Education, Sports, Arts and Culture	-	15.82	15.82
						0.19	13.64	13.83	1.40	14.36	15.76	29.59	-Health and Family Welfare	0.52	20.75	21.27
						--	5.70	5.70	--	12.42	12.42	18.12	-Water Supply, Sanitation Housing and Urban Development	-	72.26	72.26
						--	--	--	--	0.13	0.13	0.13	- Information and Broadcasting	-	-	-
						--	16.04	16.04	--	57.72	57.72	73.76	-Welfare of Scheduled Castes/Scheduled Tribes/Other Backward Classes	-	61.10	61.10
						--	0.23	0.23	--	0.37	0.37	0.60	-Social Welfare and Nutrition	0.08	0.17	0.25
						--	0.79	0.79	--	0.13	0.13	0.92	-Other Social Services	-	0.88	0.88
						5.62	475.69	481.31	(-)2.57	480.12	477.55	958.86	Economic Services	3.06	1274.21	1277.27
						5.22	(-)0.25	4.97	(-)2.92	41.00	38.08	43.05	-Agriculture and Allied Activities	2.16	21.30	23.46
						--	24.57	24.57	--	42.24	42.24	66.81	-Rural Development	-	148.54	148.54
						0.33	263.37	263.70	0.12	223.42	223.54	487.24	-Irrigation and Flood control	0.38	685.11	685.49
						--	126.34	126.34	--	112.37	112.37	238.71	-Energy	-	172.78	172.78
						0.05	3.11	3.16	0.05	1.31	1.36	4.52	-Industries and Minerals	0.11	6.69	6.80
						--	57.67	57.67	0.17	58.20	58.37	116.04	-Transport	0.38	236.95	237.33
						0.02	0.88	0.90	0.01	1.58	1.59	2.49	-General Economic Services	0.03	2.84	2.87
						6.18	518.16	524.34	(-)1.17	587.33	586.16	1110.50	Total	4.55	1466.09	1470.64

(Rupees in crore)

Receipts					Disbursements					
2000-01					2001-02	2000-01				2001-02
01.04.2000 to 31.10.2000	01.11.2000 to 31.03.2001	Total				April-October 2000	November 2000-March 2001	Total		
(-)5.79	19.24	13.45	V	Recoveries of Loans and Advances	1587.65	32.76	262.95	295.71	V. Loans and Advances disbursed	598.58
--	--			-From Power Projects	1557.55	--	191.67	191.67	-For Power Projects	224.47
9.72	4.42	14.14		-From Government Servants	12.96	14.40	2.13	16.53	-To Government Servants	7.62
(-)15.51	14.82	(-)0.69		-From others	17.14	18.36	69.15	87.51	-To others	366.49
--	--	--	VI	Inter-State Settlement	--	--	--	--	VI. Inter State Settlement	5.56
--	--		VII	Revenue Surplus brought down	-	1801.46	344.46	2145.92	VII. Revenue deficit brought down	3157.69
2170.59	929.94	3100.53	VIII	Public debt receipt	3281.00	271.44	546.92	818.36	VIII. Repayment of Public debt	521.67
1308.30	567.84	1876.14		-Internal debt other than ways and means advances and overdraft	1830.30	51.37	72.46	123.83	-Internal debt other than ways and means advances and overdraft	149.38
631.52	362.10	993.62		-Loans and advances from Central Government	1450.70	220.07	180.58	400.65	-Repayment of loans and advances to Central Government	372.29
230.77	--	230.77		-Net transactions under Ways and means advances including overdraft	-	--	293.88	293.88	-Net transactions under Ways and means advances including overdraft	--
--	--	--	IX	Appropriation to Contingency Fund	-	--	--	--	IX. Appropriation to Contingency Fund	--
6.93	--	6.93	X	Amount transferred to Contingency Fund	-	13.39	(-)13.39	--	X. Expenditure from Contingency Fund	--
9881.84	6638.57	16520.41	XI	Public Account receipts	15012.67	9689.79	6145.90	15835.69	XI. Public Account disbursements	13569.50
1221.95	530.25	1752.20		-Small Savings and Provident Funds	1238.13	603.42	392.42	995.84	-Small Savings and Provident Funds	830.53
1.77	125.17	126.94		-Reserve funds	130.97	0.50	2.26	2.76	-Reserve Funds	37.50
5131.11	3606.20	8737.31		-Suspense and Miscellaneous	7433.57	5206.92	3479.85	8686.77	-Suspense and Miscellaneous	7332.81
2286.88	1499.60	3786.48		-Remittances	3394.46	2314.39	1618.48	3932.87	-Remittances	3234.45
1240.13	877.35	2117.48		-Deposits and Advances	2815.54	1564.56	652.89	2217.45	-Deposits and Advances	2134.21
--	--		XII	Closing Overdraft from Reserve Bank of India		17.11	(-)223.57	(-)206.46	XII. Cash Balance at end of the year	331.03
						(-)68.26	(-)28.22	(-)96.48	-Cash in Treasuries and Local Remittances	(-)3.22
						38.51	(-)546.29	(-)507.78	-Deposits with Reserve Bank	303.55
						21.86	12.19	34.05	-Departmental Cash Balance including permanent cash imprest	12.50
						25.00	338.75	363.75	-Cash Balance Investment and Investment of Earmarked Funds	18.20
12350.29	7649.43	19999.72		Total	19654.67	12350.29	7649.43	19999.72	Total	19654.67

EXHIBIT III
SOURCES AND APPLICATION OF FUNDS

(Rupees in crore)

2000-01				Source	2001-02		
April- 2000 [⊗]	October	November 2000- March 2001	Total		Per cent	Amount	Per cent
7136.48		5702.82	12839.30	77.44	Revenue receipts	11211.08	65.94
(-) 5.79		19.24	13.45	0.08	Recoveries of Loans and Advances	1587.65	9.34
1899.15		383.02	2282.17	13.76	Increase in Public debt	2759.33	16.23
619.80		260.74	880.54	5.31	Receipts from Public account	1443.18 ^φ	8.49
618.53		137.83	756.36		a. Increase in Small Savings	407.60	
--		--	--		b. Increase in Deposits and Advances	681.33	
1.27		122.91	124.18		c. Increase in Reserve Funds and Reserve Fund Investment	93.47	
--		--	--		d. Effect of Remittances transactions	160.01	
					e. Increase in suspense and miscellaneous	100.77	
279.60		285.25	564.85	3.41	Decrease in closing cash balance	--	--
9929.24		6651.07	16580.31	100	Total	17001.24	100
Application							
8937.93		6047.28	14985.21	90.38	Revenue expenditure	14368.77	84.52
32.76		262.95	295.71	1.78	Lending for development and other purposes	598.58	3.52
524.34		586.16	1110.50	6.70	Capital expenditure	1470.64	8.65
6.46		(-)13.39	(-)6.93	(-)0.04	Net effect of Contingency Fund transactions	--	--
					Net effect of Inter State settlement	5.56	0.03
427.75		(-)231.93	195.82	1.18	Application from Public Account-	--	--
75.81		(-) 126.35	(-) 50.54		a. Net effect of Suspense and Miscellaneous	--	--
---		----	----		b. Miscellaneous Government Account	--	--
324.43		(-) 224.46	99.97		c. Decrease in Deposits and Advances	--	--
27.51		118.88	146.39		d. Effect of Remittances transactions	--	--
--		---	--	--	Increase in closing cash balance	557.69 [*]	3.28
9929.24		6651.07	16580.31	100	Total	17001.24	100

Explanatory Notes to Exhibits I, II and III:

- The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts
- Government accounts being mainly on cash basis, the deficit on government account, as shown in Exhibit I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures etc., do not figure in the accounts.
- Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and inter-departmental and inter-Government payments and others awaiting settlement.
- Grants-in-aid of Rs.33.61 crore to local bodies/institutions was mis-classified under capital (Plan) expenditure instead of non plan Revenue expenditure
- There was a difference of Rs.389.55 lakh (credit) between the figures- Rs.30355.36 lakh (debit)- reflected in the Accounts and that intimated by Reserve Bank of India - Rs.30744.91 lakh (credit)- Under "Deposits with Reserve Bank". After close of December 2002 accounts, the net difference to be reconciled was Rs.3.59 lakh (debit)

⊗ Pertains to erstwhile composite State of M.P.

φ Difference of Rs.0.01 crore is due to rounding off.

* Including proforma correction of Rs.3.08 crore.

EXHIBIT IV
TIME-SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1997-98 [⊗]	1998-99 [⊗]	1999-2000 [⊗]	2000-01			2001-02
				April- October 2000 [⊗]	November 2000- March 2001	Total	
Part A. Receipts							
1. Revenue Receipts	11257	11346	13204	7136	5703	12839	11211
(i) Tax Revenue	4564 (40)	5108 (45)	5795 (44)	3225	2415	5640 (44)	4679(42)
Taxes on Sales, Trade, etc.	2056 (45)	2297 (45)	2555 (44)	1568	1198	2766 (49)	2361(50)
State Excise	845 (19)	965 (19)	1073 (19)	674	301	975 (17)	705(15)
Stamps and Registration fees	361 (8)	400 (8)	470 (8)	298	179	477 (8)	445(10)
Taxes on Vehicles	371(8)	382 (7)	402 (7)	257	149	406 (7)	393(8)
Other Taxes	931(20)	1064(21)	1295(22)	428	588	1016(19)	775(17)
(ii) Non Tax Revenue	2019 (18)	1782 (16)	2469 (18)	1020	704	1724 (13)	1602(14)
(iii) State's share in Union taxes and duties	3327 (30)	2932 (26)	3262 (25)	2318	1637	3955 (31)	3439(31)
(iv) Grants-in-aid from GOI	1348 (12)	1523 (13)	1678 (13)	574	946	1520 (12)	1491(13)
2. Misc. Capital Receipts	--	--	--	--	--	--	--
3. Total revenue and Non debt capital receipts (1+2)	11257	11346	13204	7136	5703	12839	11211
4. Recovery of Loans and Advances	794	56	314	(-6)	19	13	1588
4A Inter-State Settlement							--
5. Public Debt Receipts	2093	2796	3462	2171	930	3101	3281
Internal Debt (Excluding Ways & Means Advances and Overdraft)	651(31)	742(28)	2104(61)	1308	568	1876(61)	1830(56)
Loans and Advances from Government of India ^s	1442(69)	1862(72)	1358(39)	632	362	994(32)	1451(44)
Net Transactions under Ways and means advances and overdraft	--	192	--	231	--	231(7)	--
6. Total receipts in the Consolidated fund (3+4+5)	14144	14198	16980	9301	6652	15953	16080
7. Contingency Fund receipts	3	--	--	7	--	7	--
8. Public Account receipts	13961	15717	17170	9882	6638	16520	15013
9. Total receipts of the Government (6+7+8)	28108	29915	34150	19190	13290	32480	31093
Part B. Expenditure / Disbursements							
10. Revenue expenditure	11726(85)	14218(92)	16136(93)	8938	6047	14985 (91)	14369(87)
Plan	2283(19)	2476(17)	2727(17)	1217	1466	2683 (18)	2516(18)
Non-Plan	9443(81)	11742(83)	13409(83)	7721	4581	12302 (82)	11853(82)
General Services (including interest, payments)	3857(33)	4766(34)	5244(33)	3364	1959	5323 (36)	5049(35)
Social Services	4482(38)	5574(39)	6210(38)	3639	2197	5836 (39)	4583(32)
Economic Services	3052(26)	3462(24)	4033(25)	1585	1713	3298 (22)	4364(30)
Grants-in-aid and contributions	335(3)	416(3)	648(4)	350	178	528 (3)	373(3)
11. Capital Expenditure	1678(12)	1010(6)	950(5)	524	586	1110 (7)	1471(9)
Plan	1672 (100)	999 (99)	946 (100)	518	587	1105(100)	1466(100)
Non-Plan	6	11 (1)	4	06	(-01)	05	05
General Services	22 (1)	20 (2)	16 (2)	05	11	16(2)	22(1)
Social Services	170 (10)	219 (22)	195 (20)	38	98	136(12)	172(12)
Economic Services	1486 (89)	771 (76)	739 (78)	481	477	958(86)	1277(87)

-contd..

⊗ Pertains to erstwhile composite State of M.P.

^s Includes ways and means advances from GOI.

EXHIBIT IV (continued)

(Rupees in crore)

	1997-98*	1998-99*	1999-2000*	2000-01			2001-02
				April-October 2000*	November 2000-March 2001	Total	
12. Disbursement of Loans and Advances	468 (3)	302 (2)	343 (2)	33	263	296(2)	599(4)
12A Inter-State settlement							5
13. Total expenditure (10+11+12)	13872	15530	17429	9495	6896	16391	16444
14. Repayment of Public Debt	353	439	549	271	547	818	522
Internal Debt (excluding Ways & Means Advances and Overdraft)	43	90	135	51	72	123	150
Net transactions under Ways and Means Advances and Overdraft	--	--	21	--	294	294	--
Loans and Advances from Government of India ⁵	310	349	393	220	181	401	372
15. Appropriation to Contingency Fund	--	--	--	--	--	--	--
16. Total disbursement out of Consolidated Fund (13+14+15)	14225	15969	17978	9766	7443	17209	16966
17. Contingency Fund disbursements	--	--	7	13	(-)13	--	--
18. Public Account disbursements	13729	14131	16040	9690	6146	15836	13569
19. Total disbursements by the Government (16+17+18)	27954	30100	34025	19469	13576	33045	30535
Part C. Deficits							
20. Revenue Deficit (1-10)	469	2872	2932	1802	344	2146	3158
21. Fiscal Deficit (3+4-13)	1821	4127	3911	2365	1174	3539	3645
22. Primary Deficit (21-23)	161	2292	1772	858	270	1128	1391
Part D. Other data							
23. Interest payments (included in revenue expenditure)	1660	1835	2139	1507	904	2411	2254
24. Arrears of Revenue (percentage of Tax & non-Tax Revenue receipts)	264 (4)	248 (4)	465 (6)	--	--	347 (5)	204(3)
25. Financial assistance to local bodies etc.	677	759	1505	224	589	813	2304
26. Ways and Means Advances/Overdraft availed (days)	142/48	129/144	165/100	70/9	95/38	165/47	117/172
27. Interest on WMA/Overdraft	4/1	5/3	10/3	6/2	2/1	8/3	11/5
28. Gross State Domestic Product (GSDP)	81042	90737	98768(P)	--	--	88445(@)	81286(Q)
29. Outstanding debt (year-end)	17972	21959	25948		22548	22548	26487
30. Outstanding guarantees (year-end)	3890	1413	142		--	467	472
31. Maximum amount guaranteed (year-end)	9092	8599	9671		--	9673	9701
32. Number of incomplete projects	55	59	237	--	--	185	180
33. Capital blocked in incomplete projects	3498	3725	5957	--	--	4983	5589

(Q) Quick estimates for the successor State of Madhya Pradesh.

(P)- Provisional

(@) Provisional figures of GSDP for the full year (Rs.73165 crore) for the successor State of Madhya Pradesh plus pro-rata figures of that for Chhattisgarh (Rs.15280 crore) for April-October 2000.

(*) In respect of composite state of Madhya Pradesh.

1.3 Financial operations of the State Government

1.3.1 *Exhibit II* gives the details of the receipts of and disbursements made by the State Government. The Revenue expenditure (Rs.14369 crore) during the year exceeded the revenue receipts (Rs.11211 crore) resulting in a revenue deficit of Rs.3158 crore. The Revenue receipts comprised tax revenue (Rs.4679 crore), non-tax revenue (Rs.1602 crore), State's share of Union taxes and duties (Rs.3439 crore) and grants-in-aid from the Government of India (Rs.1491 crore). The main sources of tax revenue were taxes on sales (50 per cent), State excise (15 per cent) stamps and registration fees (10 per cent) and taxes on vehicles (8 per cent). Non-tax revenue came mainly from Forestry and Wild Life (Rs.306 crore, 20 per cent), Non-Ferrous Mining and Metallurgical Industries (Rs.528 crore, 33 per cent), interest receipts (Rs.247 crore, 15 per cent) and others Rs.521 crore (32 per cent).

1.3.2 Capital receipts comprised of Rs.1588 crore from recoveries of loans and advances and Rs.3281 crore from public debt. Against this, the expenditure was Rs.1471 crore on capital outlay, Rs.599 crore on disbursement of loans and advances and Rs.522 crore on repayment of public debt. The receipts in the Public Account amounted to Rs.15013 crore, against which disbursements of Rs.13569 crore were made. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was increase of Rs.558 crore in the cash balance at the end of the year.

1.3.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in *Exhibit II* and the time-series data for the five-year period from 1997-2002 presented in *Exhibit IV*.

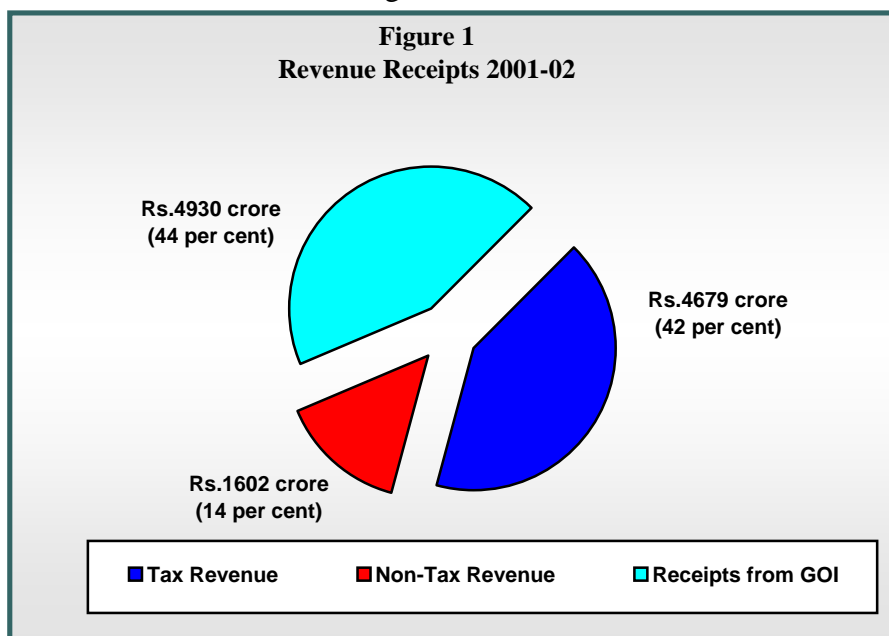
1.4 Sources and application of funds

1.4.1 *Exhibit III* gives the position of sources and application of funds during the current and the preceding years. The main sources of funds include the revenue receipts of the Government, recoveries of the loans and advances, public debt and receipts in the Public Account. These are applied mainly on revenue and capital expenditure and lending for developmental purposes. It would be seen that the revenue receipts constitute the most significant source of funds. While the relative share of revenue receipts decreased from 77.44 per cent in 2000-01 to 65.94 per cent during 2001-02, the shares of net receipts from Public Account, recoveries of loans and advances and receipts from the Public Debt, however, increased from 5.31 per cent, 0.08 per cent and 13.76 per cent in 2000-01 to 8.49 per cent, 9.34 per cent and 16.23 per cent respectively in 2001-02, the most significant increase being in recoveries of loans and advances.

1.4.2 The funds were mainly applied for revenue expenditure, whose share decreased from 90.38 per cent to 84.52 per cent but remained significantly higher than the share of the revenue receipts (65.94 per cent) in the total receipts of the State Government. This led to revenue deficit. The share of capital expenditure and lending for development purposes marginally improved from 6.70 per cent and 1.78 per cent to 8.65 per cent and 3.52 per cent respectively.

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure 1. The revenue receipts declined by 2.76 and 12.68 per cent during 2000-01 and 2001-02, largely as a natural consequence of the re-organisation of the erstwhile composite State of Madhya Pradesh into the present States of MP and Chhattisgarh with effect from November 2000.



1.5.2 Tax revenue

These constitute the major share (42 per cent) of revenue receipts. While the tax revenue decreased in absolute terms from Rs.5640 crore in 2000-01 to Rs.4679 crore during the current year, its share in revenue receipts too decreased by two per cent points during the year. *Exhibit IV* shows that the relative contributions of sales tax, stamps and registration fees and taxes on vehicles increased from 49 per cent, 8 per cent and 7 per cent in 2000-01 to 50, 10 and 8 per cent respectively in 2001-02 but that of State excise came down from 17 to 15 per cent.

1.5.3 Non-tax revenue

The share of non-tax revenue in the revenue receipts after registering a continuous decline from 18 per cent in 1997-98 to 13 per cent in 2000-01, picked up somewhat, to 14 per cent in 2001-02.

1.5.4 State's share of Union taxes and duties and grants-in-aid from the Central Government

The State's share of Union taxes (Central excise duties, Income tax and Corporation taxes) and grants-in-aid from the Central Government decreased by 13 and 2 per cent during the year. However, as a percentage of revenue receipts (both taken together), it rose from 43 per cent in 2000-01 to 44 per cent during 2001-02.

1.6 Incorrect budgeting and classification of expenditure

As per the Rules* expenditure on grants-in-aid to local bodies/ institutions even for the purpose of creating assets cannot be classified as capital expenditure. During 2001-02, however, the State Government booked expenditure of Rs.33.61 crore as grants-in-aid to local bodies/ institutions under Capital section of Accounts under Capital Outlay on Urban Development, as follows:

<i>(Rupees in crore)</i>		
Grants-in-aid to/for	Budget provision	Expenditure
Disaster Management Institute, Bhopal, for construction of hostels	0.17	Nil
Bhoj Wetland Project	93.00	16.74
For basic amenities to urban local bodies under Recommendation of 11th Finance Commission	34.27	12.74
Fire Brigade Services	4.13	4.13
Total	131.57	33.61

The incorrect classification not only increased the Capital outlay but also reduced revenue deficit by Rs.33.61 crore.

1.7 Revenue expenditure

1.7.1 Revenue expenditure accounted for 91 per cent of the total expenditure of the State Government in 2000-01 and decreased during the current year to 87 per cent. In absolute terms, it decreased from Rs.14985 crore to Rs.14369 crore (4 per cent) during the year. The decrease was both on the Plan and non-Plan sides. A comparison, however, shows that over the period 1997-98

* Rules 30 and 31 of Government Accounting Rules, 1990.

(Rs.9443 crore) to 2001-02 (Rs.11853 crore) the rate of growth in non-Plan component (26 per cent) of revenue expenditure far surpassed that in Plan expenditure (10 per cent), as can be seen from *Exhibit IV*. Trend analysis also shows that though during the year the Government was able to reduce the share of the revenue expenditure to total expenditure from 91 per cent in 2000-01 to 87 per cent in 2001-02, still it was higher than the 85 per cent achieved in 1997-98.

1.7.2 Sector-wise analysis shows that while the expenditure on General Services increased by 31 per cent, from Rs.3857 crore in 1997-98 to Rs.5049 crore in 2001-02, the corresponding increase in expenditure on Social Services was only 2 per cent and on Economic Services 43 per cent. As a proportion of the revenue expenditure, the shares of General Services and Economic Services increased from 33 and 26 per cent in 1997-98 to 35 and 30 per cent respectively in 2001-02, whereas the share of Social Services declined from 38 per cent in 1997-98 to 32 per cent in 2001-02 during the same period.

1.7.3 Interest payments

Interest payments increased by 36 per cent during the period 1997-2002. These however, declined by 7 per cent during the year. The decline in interest payments can partly be attributable to apportionment of Internal Debt and Loans and Advances from Central Government between the successor state of Madhya Pradesh and Chhattisgarh. This is further discussed in paragraph 1.12.3(ii) in the section on financial indicators.

1.7.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided to different local bodies etc., during the five-year period ending 2001-02 was as follows:

	1997-98	1998-99	1999-2000	2000-01		Total	2001-02
				As on	As on		
				31.10.2000	31.3.2001		
Education	206	292	312	193	160	353	276
Water Supply, Sanitation, Housing and Urban Development	55	36	45	26	39	65	27
Cooperatives	44	25	2	1	2	3	1
Madhya Pradesh State Electricity Board	365	402	1140	--	385	385	1992
Public Undertakings	7	4	6	4	3	7	7
Total	677	759	1505	224	589	813	2303
Percentage of growth over the previous year	-49	12	98	--	--	(-)46	183
Assistance as a percentage of revenue expenditure	6	5	9	--	--	5	16

A major portion of the assistance has been accounted for by the State Electricity Board and educational institutions.

1.8 Capital expenditure

1.8.1 Capital expenditure normally leads to asset creation. In addition, financial assets arise from money invested in institutions or undertakings outside Government i.e. public sector undertakings (PSUs), corporations etc. and loans and advances. *Exhibit IV* shows that most of the capital expenditure has been on Economic Services on the Plan side.

1.8.2 Loans and Advances by the State Government

The Government gives loans and advances to government companies, corporations, local bodies, autonomous bodies, co-operatives, non-government institutions, etc., for developmental and non-developmental activities. The position for the last five years from 1997-2002 was as follows:

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-01		Total	2001-02
				April-October 2000	November 2000-March 2001		
Opening balance	2897	2570	2816	2845	2747 [∅]	2845	2991
Amount advanced during the year	467	302	343	32	263	295	599
Repayments received during the year	794	56	314	(-)6	19	13	1588
Closing balance	2570	2816	2845	2883	2991 [@]	2991	2002
Net addition	-327	245	29	38	244	282	(-)989
Interest received	223	147	247	33	124	157	237

It would be seen that except for 1997-98 and 2001-02, the repayments have constituted only a small percentage of loans advanced indicating that the recovery of loans was very poor. The recoveries during the current year 2001-02 were, however, Rs.1588 crore, an increase of Rs.1575 crore over the preceding year. Out of loans the detailed accounts of which are maintained by the Accountant General (Accounts and Entitlements), recovery of Rs.188.82 crore (principal) and Rs.12.83 crore (interest) was in arrears as on 31 March 2002. Details in respect of loans, the detailed accounts of which were maintained by the departmental officers, had not been furnished to the Accountant General (Accounts and Entitlements).

1.9 Quality of expenditure

1.9.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and non-Plan and Revenue and Capital. While the Plan expenditure is usually associated with asset creation, the non-Plan expenditure is identified with expenditure on establishment, maintenance and services. By definition,

[∅] Differs from the closing balance for the period April- October 2000 by Rs.136 crore allocated to State of Chhattisgarh

[@] Includes Rs.2191 crore retained in Madhya Pradesh pending further apportionment between the successor States.

therefore, in general, the Plan expenditure can be viewed as contributing to the quality of expenditure.

1.9.2 Wasteful public expenditure, diversion of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure as the expenditure was not actually incurred in the concerned year, it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General Services to the detriment of Economic and Social Services.

1.9.3 The following table lists out the trend in these indicators:

	1997-98	1998-99	1999-2000	2000-01			2001-02
				April-October 2000	November 2000 to March 2001	Average	
1. Share in total expenditure (Revenue + Capital) of							
(a) Plan expenditure (per cent)	30	23	22	18	31	24	25
(b) Capital expenditure (per cent)	13	7	6	6	9	7	9
2 Expenditure on General Services as a percentage of total expenditure (Revenue + Capital)	29	31	31	36	--	33	32
3 Amount of wastages and diversion of funds etc. reported in Audit Reports (Rupees. in crore)	25	24	232			399	95
4 Non-remunerative expenditure on incomplete projects (Rupees. in crore)	456	404	5957			4983	5589
5 Unspent balances under Deposit heads, booked as expenditure (Rupees. in crore)	505	1101	1089			880	1510

It would be seen that the shares of both the Plan expenditure and Capital expenditure have been declining, except in 2000-02 when both went up but were still significantly lower than the highs achieved in 1997-98. The expenditure on General Services, at the same time, has been consistently on the increase except for a marginal decrease in 2001-02. Substantial funds (Rs.5589 crore) remained blocked in 180 incomplete projects as on 31 March 2002. Apart from large amounts of wastages and diversions of funds reported in the Audit Reports from year to year, substantial amounts (Rs.684.28 crore) were parked under Civil Deposits (Personal Deposits), without the expenditure having been actually incurred. All these reflect adversely on the quality of expenditure.

Few important instances in which funds were parked in Civil Deposits instead of being utilised on specified schemes are explained below:

1.9.3.1 Non-utilisation of Central Funds

Madhya Pradesh Treasury Code provides that no money should be drawn from the treasury unless required for immediate disbursement. It also provides that any amount kept under Civil Deposits shall lapse to government account if not withdrawn within 3 years. It is obligatory for the State Government not only to utilise the funds received from Government of India (GOI) on the programmes for which received but also within the specified periods and refund the unspent balances to GOI, unless permitted to utilise them during subsequent period (s). Audit observed that the state Government was either not releasing the GOI funds provided for implementation of centrally sponsored schemes to implementation agencies or was releasing with the directions to deposit it under Civil deposits only to maintain their ways and means position. A few instances are as follows:

(a) GOI sanctioned (1997-98) a grant of Rs. 1.98 crore to State Commissioner of Handlooms and Handicrafts (Commissioner) for construction of 1981 urban work sheds under the Centrally sponsored Work shed-cum-Housing Scheme for Handloom Weavers in the earthquake-affected area of Jabalpur district. The State Government released the amount to the Commissioner in March 1999 for being kept under Civil Deposits and to be utilised only after revalidation of the sanction by GOI. The amount was accordingly credited (March 1999) to Civil Deposits. On this being pointed out, the Commissioner intimated (June 2003) that the amount had since been refunded to GOI in April 2003. Thus, not only the amount remained blocked for four years, the handloom weavers of earthquake-affected area were also deprived of the benefits envisaged for them under the Centrally Sponsored Scheme.

(b) GOI provided (2000-01) Rs.5.10 crore to Indian System of Medicine and Homoeopathy, Madhya Pradesh, for supply of medicines to 9 Ayurved / Unani/ Homoeopathy hospitals attached to various Colleges*, 30 hospitals and 1622 dispensaries. State Government, however, issued sanction in March 2001 with directions to draw the amount and to deposit it under Civil Deposits. The Department accordingly deposited the amount in March 2001. This was still (September 2002) lying unutilised under Civil Deposits.

Thus, Rs.5.10 crore provided by GOI for augmenting primary health care in rural areas were lying unutilised for more than two years depriving the rural population at large of the intended benefits.

1.10 Financial management

The issue of financial management in Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent Chapters of this Report deal extensively with these issues,

* Ayurved Colleges, Bhopal, Burhanpur, Gwalior, Indore, Jabalpur, Rewa and Ujjain; Unani College, Bhopal, and Homoeopathy College, Bhopal

especially as these relate to the expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government, are discussed in this section.

1.10.1 Investments and returns

Investments are made out of the capital outlay to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as follows:

(Rupees in crore)

Sector	Number of concerns	Amount invested	
		During 2001-02	As on 31.03.2002
Statutory Corporations	13	--	947.82
Government Companies	25	1.50	201.04
Joint Stock Companies	24	--	1.65
Co-operative Institutions	124	6.49	536.57
Total	186	7.99	1687.08(*)

(*) Includes Rs.1628 crore yet to be apportioned between the two successor States of M.P. and Chhattisgarh.

The details of investments and the returns realised during the last five years by way of dividend and interest were as follows:

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowings (per cent)
	(Rupees in crore)			
1997-98	1531.36	1.55	0.10	12.30
1998-99	1598.36	1.00	0.06	12.50
1999-2000	1637.94	1.81	0.11	11.70
2000-01	1679.09	0.31	0.02	10.95
2001-02	1687.08	1.64	0.10	9.03

While the Government was raising high cost borrowings from the market, its investment in Government companies etc., fetched insignificant returns, indicating very poor performance by public sector undertakings, Government companies and statutory corporations and co-operative institutions.

1.10.2 Financial results of irrigation works

The financial results of 11 major and medium irrigation projects with revenue expenditure of Rs.261.10 crore during the year showed that revenue realised (Rs.39.15 crore) from these projects during 2001-02 was 14.99 per cent of revenue expenditure, far from being sufficient to meet even the expenditure on maintenance.

1.10.3 Incomplete projects

As on 31 March 2002, there were 180 incomplete projects with a cumulative investment of Rs.5589.43 crore. This showed that the Government was spreading its resources thinly, which failed to yield any return.

1.10.4 Arrears of revenue

The following were the arrears of revenue pending collection as intimated by some of the departments:

(Rupees in crore)

Sl. No.	Nature of revenue/ name of the Department	Amount of arrears as on 31.3.2001	Amount of arrears as on 31.3.2002	Amount of arrears outstanding for more than five years as on 31.3.2002
1.	Commercial Tax	225.79	872.80	242.17
2.	Taxes on Vehicles	11.09	18.39	NA
3.	State Excise	37.17	NA	NA
4.	Taxes and duties on electricity	16.18	15.97	0.76
5.	Stamp duty and registration fees	11.37	17.78	NA
6.	Mining and Metallurgical Industries	37.81	NA	NA
7.	Co-operation	7.78	8.72	2.24
8.	Forest	--	44.67	15.50
9.	Water Resources	--	98.69	NA
TOTAL		347.19	1077.02	260.67

NA- Not made available by the departments concerned.

Since some of the major tax and non-tax revenue earning departments did not make available, the data on arrears of revenue, a comprehensive assessment of revenue collection performance has not been possible. However, as can be seen, arrears relating to commercial tax, taxes on vehicles and stamp duty and registration fees have gone up by 210 per cent, not depicting a healthy state of affairs.

1.10.5 Ways and means advances and overdraft

Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs.1.96 crore. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking ways and means advances (WMA) /special ways and means advances from the Bank. Besides, overdraft (OD) is also made available by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the Government, and hence reflects poorly on the financial management in Government.

During the year 2001-02, the Government remained heavily dependent on ways and means advances and overdraft for bridging the gap in its resources and obtained ways and means advances for 117 days amounting to Rs.2492 crore (as against Rs.2246 crore for 165 days during 2000-01) and OD for 172 days amounting to Rs.3723 crore (Rs.1220 crore for 47 days in 2000-01). The

interest paid on WMA and OD was Rs.11 crore and Rs.5 crore respectively indicated the Government's increasing dependence on over draft from RBI for financing its day to day expenditure.

1.10.6 Deficit

1.10.6.1 Deficits in government account represent gaps between the receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.10.6.2 Revenue Deficit is the excess of revenue expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit is fiscal deficit less interest payments. The following *Exhibit* gives a break-up of the deficit in government account:

(Rupees in crore)

CONSOLIDATED FUND				
Receipts	Total 2001-02		Disbursements	Total 2001-02
Revenue	11211	Revenue deficit: 3158	Revenue	14369
Misc. capital receipts	--		Capital	1471
Recovery of loans & advances	1588		Disbursement of loans & advances	599
Inter-State Settlement	--		Inter-State Settlement	5
Sub Total	12799	Gross fiscal deficit: 3645	Sub Total	16444
Public debt	3281		Public debt repayment	522
Total	16080	A: Deficit in Consolidated Fund: 886	Total	16966
CONTINGENCY FUND				
Amount transferred to Contingency Fund	--		Expenditure from Contingency Fund	--
		B. Surplus in Contingency Fund : Nil		
PUBLIC ACCOUNT				
Small savings, PF etc.	1238	C: Deficit in Consolidated Fund and Contingency Fund financed by Public Account: Rs.1444	Small savings, PF etc.	831
Deposits & advances	2816		Deposits & advances	2134
Reserve funds	131		Reserve funds	37
Suspense & misc.	7434		Suspense & misc.	7333
Remittances	3394		Remittances	3234
Total Public Account	15013		Total	13569
Increase in cash balance C-(A+B) =1444-886= 558				

Gross Fiscal Deficit of Rs.3645 crore was financed from net proceeds of Public Debt (Rs.2759 crore) and surplus from Public Account (Rs.1444 crore).

1.10.6.3 Application of the borrowed funds (Fiscal Deficit)

The Fiscal Deficit (FD) represents total net borrowings of the Government. These borrowings are applied for meeting the Revenue Deficit (RD), for making the Capital Expenditure (CE) and for giving loans to various bodies for development and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowings for revenue expenditure would not be sustainable in the long run. The following table shows the position for the last five years:

Ratio	1997-98	1998-99	1999-2000	2000-01	2001-02
RD/FD	0.26	0.70	0.75	0.61	0.87
CE/FD	0.92	0.24	0.24	0.31	0.40
Net loans/FD	-0.18	0.06	0.01	0.08	-0.27
Total	1.00	1.00	1.00	1.00	1.00

The pre-dominance of the borrowed funds in meeting the revenue expenditure in the last five years is evident from the high RD/FD ratio which reached a new high of 0.87 during 2001-02. Resultantly, the capital expenditure has suffered as can be seen from the low CE/FD ratio, though during the year 2001-02, this ratio improved significantly due to substantially improved performance in recoveries of past loans and advances. The high CE/FD ratio in 1997-98 too was possible due to good performance in recovery of past loans, but coupled with simultaneous decline in revenue expenditure. There is an urgent need to control revenue expenditure or else capital formation will continue to suffer.

1.10.7 Guarantees given by the State Government

Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital etc. raised by the statutory corporations, Government companies and co-operative institutions etc. and payment of interest and dividend by them. These constitute contingent liability of the State. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the State. *Exhibit IV* lists the amounts of guarantees given by the State government and the amounts outstanding at the end of the each year during 1997-2002. Guarantees given by the State government have shown an increasing trend except in the year 1998-99.

1.11 Public debt

1.11.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the State Government as at the

end of the last five years are given in the following table. During the five- year period, the total liabilities of the Government had grown by 47 per cent. A more realistic picture would, however, be available only after the assets and liabilities of the composite State of Madhya Pradesh are fully apportioned between the successor States of Madhya Pradesh and Chhattisgarh. It is however, seen that total public debt (already apportioned between the successor state of Madhya Pradesh and Chhattisgarh) increased by 51 per cent over a period of five years and in absolute terms was more than even the internal debt of the composite state of Madhya Pradesh.

(Rupees in crore)

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities ^α	Total liabilities	Ratio of debt to GSDP
1997-98	3349.02	7717.61	11066.63	6905.73	17972.36	0.22
1998-99	4193.19	9230.35	13423.54	8535.09	21958.63	0.24
1999-2000	6141.25	10195.05	16336.30	9611.46	25947.76	0.26
2000-01	5967.51	7964.77	13932.28	8616.14	22548.42	0.25
2001-02	7648.43	9043.18	16691.61	9795.26	26486.87	0.33*

1.11.2 The amount of funds raised through Public debt, the amount of repayment and net funds available are given in the following table:

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-01			2001-02
				April-October 2000	November 2000-March 2001	Total	
Internal Debt							
-Receipt	3222	4738	7304	2758	2585	5343	8045
-Repayment (principal+interest)	2992	4346	5913	1737	2636	4373	7120
-Net funds available (per cent)	230(7)	392(8)	1391(19)	1021	(-)51	970 (18)	925(11)
Loans and advances from GOI							
-Receipt during the year	1442	1862	1358	632	362	994	1451
-Repayment (principal+interest)	1058	1268	1527	836	658	1494	1368
-Net funds available (per cent)	384 (27)	594 (32)	(-)169 (-12)	(-)204	(-)296	(-)500 (-)50	83 (6)
Other liabilities							
-Receipt during the year	2940	4229	4381	2242	1396	3638	3863
-Repayment	3106	3062	3758	2371	1086	3457	3186
-Net funds available (per cent)	(-)166 --	1167 (28)	623 (14)	(-)129	310	181 (5)	677 (18)

^α Other liabilities include small savings, provident funds, reserve funds and deposits, etc. These have not yet been apportioned between the two successor state of Madhya Pradesh and Chhattisgarh.

* GSDP (quick estimates) for the successor state of Madhya Pradesh adopted.

Considering that the outstanding debt has been increasing year after year the net availability of funds through borrowings is going to reduce considerably. This is evident from the fact that while fresh borrowings under internal debt during the year were of the order of Rs.8045 crore, the net yield was only Rs.925 crore (11 per cent). Overall, as much as 89 per cent of the fresh liabilities had to be applied towards discharge of past liabilities.

1.12 Indicators of the financial performance

1.12.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity, it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing and finally, Government's increased vulnerability in the process. All the State governments continue to increase the level of their activity principally through Five Year Plans which translate into Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-Plan expenditure represents Government maintaining the existing level of activity^{**}, while Plan expenditure entails expansion of activity. Both these activities require resource mobilization increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenue base or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of Annual Financial Statement (Budget) and the Accounts. As regards the budget, the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As

^{**} *There are exceptions to this, notably transfer of Plan to non-Plan at the end of Plan period.*

regards accounts, timeliness in submission, for which milestones exist and completeness of accounts, would be the principal criteria.

1.12.2 Information available in Finance Accounts can be used to flesh out Sustainability, Flexibility, and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in **Appendix I. Exhibit V** indicates the behaviour of these indices/ratios over the period 1997-2002.

EXHIBIT V

Financial indicators for Government of Madhya Pradesh

	1997-98	1998-99	1999-2000	2000-01	2001-02
Sustainability					
BCR (Rupees in crore)	662	(-1725)	(-1556)	(-) 793	(-)1811
Primary Deficit (PD) (Rupees in crore)	161	2292	1772	1128	1391
Interest Ratio	0.13	0.15	0.15	0.18	0.18
Capital outlay/Capital receipts	0.61	0.31	0.22	0.28	0.31
Total Tax receipts/GSDP	0.10	0.09	0.09	0.11	0.10
State Tax receipts/GSDP	0.06	0.06	0.06	0.06	0.06
Return on Investment (per cent)	0.10	0.06	0.11	0.02	0.10
Flexibility					
BCR (Rupees in crore)	662	(-1725)	(-1556)	(-)793	(-)1811
Capital repayments/Capital borrowings	0.17	0.17	0.15	0.18	0.16
State tax receipts/GSDP	0.06	0.06	0.06	0.06	0.06
Debt/GSDP	0.22	0.24	0.26	0.25	0.33
Vulnerability					
Revenue Deficit(RD) (Rupees in crore)	469	2872	2932	2146	3158
Fiscal Deficit(FD) (Rupees in crore)	1821	4127	3911	3539	3645
Primary Deficit(PD) (Rupees in crore)	161	2292	1772	1128	1391
PD/FD	0.09	0.55	0.45	0.32	0.38
RD/FD	0.26	0.70	0.75	0.61	0.87
Outstanding Guarantees/ Revenue receipts	0.35	0.12	0.01	0.04	0.04
Assets/Liabilities	0.93	0.81	0.73	0.80	0.71

Notes

1. Fiscal deficit has been calculated as: Revenue expenditure + Capital expenditure + net loans and advances – Revenue receipts – non-loan capital receipts.
2. In the ratio Capital outlay vs. Capital receipts, the denominator has been taken as internal loans + Loans and Advances from Government of India + net receipts from small savings, PF etc. and recoveries of loans advanced by the State Government – Loans advanced by State Government.

1.12.3 The implications of these indices/ratios for the state of the financial health of the State Government are discussed in the following paragraphs.

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus Plan assistance grants minus non-Plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting Plan expenditure. The table shows that the State Government had positive BCR only four years back in 1997-98, suggesting that the State finances thereafter were greatly stressed and Government had to depend on borrowings for not only meeting its Plan expenditure, but increasingly to bridge the substantial gap in current revenues also, and the gap has been the widest (Rs.1811 crore) during the year 2001-02.

(ii) Interest ratio

Higher the ratio, lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of Madhya Pradesh, the ratio has risen from 0.13 in 1997-98 to 0.18 in 2001-02 mainly due to the sharp increase in interest payments compared to the growth of revenue receipts.

(iii) Capital outlay/Capital receipts

This ratio indicates the extent to which the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long run inasmuch as it indicates that a part of the capital receipts are being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance. In the case of Madhya Pradesh, the ratio has all along been less than one and has been steadily declining from 0.61 in 1997-98 to 0.31 in 2001-02 indicating that a substantial part of capital receipts were not available for investment.

(iv) Tax receipts Vs Gross State Domestic Product (GSDP)

Tax receipts consist of State taxes and State's share of Central taxes. The latter can also be viewed as Central taxes paid by people living in the State. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility. *Exhibit V* shows that in case of Madhya Pradesh, this ratio has, after being practically static during 1997-2000 at 0.10/0.09 and slightly improved (to 0.11) in 2000-01 but again decreased (to 0.10) in 2001-02. The ratio of State tax receipts compared to GSDP has on the other hand, all along been stagnating at 0.06 during 1997-2002. Analysis of the composition of tax revenue in paragraph 1.5.2 shows that State Government depended heavily on Sales tax with no significant improvement in yield from other taxes.

(v) Return on Investment (ROI)

The ROI is the ratio of earnings to the capital employed. A high ROI suggests sustainability. Exhibit V shows that the ROI in case of Government of Madhya Pradesh has been negligible ranging from 0.02 to 0.10 per cent, while the cost of government borrowings to fund these investments was very high as discussed in paragraph 1.10.1. Obviously, the situation is unsustainable.

(vi) Capital repayments Vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings (internal debt and loans and advances from GOI) are available for investment after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In case of Madhya Pradesh this ratio has declined from a low of 0.17 during 1997-98 to still lower 0.16 during the current year, indicating lower availability of capital for investment. As the total borrowings of the Government are increasing from year to year, liability of repayments against these loans in future will put further pressure on the Government revenues to meet the higher levels of repayments.

(vii) Debt Vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resources base of the State Government, which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. In the case of Madhya Pradesh, this ratio has sharply deteriorated to 0.33 in 2001-02 compared to 0.22 in 1997-98. However, this should be seen with this fact in view that the apportionment of assets and liabilities of the composite state of Madhya Pradesh immediately prior to the appointed day and also other financial adjustments are yet to be finalised/completed and the GSDP figures refer to only the successor state of Madhya Pradesh.

(viii) Revenue deficit Vs Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the part of revenue expenditure financed by borrowings etc. Evidently, the higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus, the higher the ratio, the worse-off the State because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State. As discussed in paragraph 1.10.6.3, this ratio has been rising, from a low of 0.26 in 1997-98 to a high of 0.87 in 2001-02. This indicates that as much as 87 per cent of the borrowings were applied for revenue expenditure as compared to 26 per cent in 1997-98 underlining a marked deterioration in the quality of application of borrowed funds. This is mainly due to the increase in revenue expenditure (23 per cent) and slight decrease in revenue receipts in the intervening period.

(ix) Primary deficit Vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. Primary deficit represents the net borrowings available after discharging interest liability for current activities of the Government (considering that interest payments are the results of past actions of the Government). Primary deficit is sustainable only when the economy grows at a rate higher than the interest rate on borrowings. As would be seen from Exhibit V, the Primary deficit after touching a high of Rs.2292 crore in 1998-99 has been coming down, but still consumed 38 per cent of the fiscal deficit. This evidently has serious implications for sustainability.

(x) Guarantees Vs Revenue receipts

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure and should therefore be compared with the ability of the Government to pay *viz.* its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. In case of Madhya Pradesh, this ratio has sharply decreased to the range of 0.1 and 0.04 during 1999-2002, after having risen to 0.35 in 1997 -98. However, the figures of total guarantees outstanding are not reliable, as information was not furnished by most of the departments of the State Government. Hence the extent of liability and risk exposure of State revenue to guarantees is not known.

(xi) Assets Vs Liabilities

This ratio indicates the solvency of the Government. A ratio of more than 1 would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than 1 would be a contra-indicator. As explained in paragraph 1.2, the Government accounts capture mainly the financial assets and liabilities. However, the trend of even this ratio would be an important indicator of the quality of financial management. Exhibit V shows that in case of Madhya Pradesh Government this ratio has registered a steady decline from 0.93 in 1997-98 to 0.71 in 2001-02, indicating that the financial liabilities have been committed without creating corresponding assets. A more realistic picture would, however, be available only after the assets and other liabilities of the composite State of Madhya Pradesh are fully apportioned between the successor States of Madhya Pradesh and Chhattisgarh.

(xii) Budget

There was no delay in submission of the budgetary estimates and their approval. The details are given in the following table:

Preparation	Month of submission	Month of approval
Vote on account	February 2001	March 2001
Budget	February 2001	March 2001
Supplementary I	September 2001	September 2001
Supplementary II	November 2001	December 2001
Supplementary III	March 2002	March 2002

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedures and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by persistent resumption (surrenders) of significant amounts every year *vis-a-vis* the final modified grants. Significant variations (excess/saving) between the final modified grants and actual expenditure were also persistent.

(xiii) Accounts

(a) There was serious distortion in the budgeting and accounting data due to misclassification of grants-in-aid to local bodies/institutions as capital expenditure. As a result, there was overstatement of capital expenditure and understatement of plan expenditure (Revenue). This affected the transparency of budgeting procedure as well as the Accounts.

(b) There were also significant delays in submission of accounts by the treasuries/departments and 82 monthly accounts from 34 Public Works Divisions (61 accounts), 7 Forest Divisions (17 accounts), 2 Rural Engineering Services Divisions (2 accounts) and 1 Treasury (2 accounts) were received late by 12 days or more resulting in their exclusion from the monthly accounts. As a result of, large scale exclusions, the monthly accounts failed to reflect reliable picture of appropriations against grants and progress of expenditure. All the excluded accounts were, however, adjusted subsequently.

1.12.4 Conclusion

The year witnessed a marked deterioration in State finances. While repayment liabilities increased, very little was left of the fresh borrowings for capital investment despite better recovery of past loans and advances. Increasing fiscal deficit led to increased borrowings with enhanced interest burden and greater dependence on RBI for funding its day to day expenditure.