

**CHAPTER-I
FINANCES OF THE STATE GOVERNMENT**

1.1 Introduction

The Finance Accounts of the Government of Maharashtra are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State of Maharashtra. The lay out of the Finance Accounts is depicted in the box below:

**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 2002-03.

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 borrowing 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 corporations, 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 2003.

Statement No.9 shows the revenue and expenditure under different heads for the year 2002-03 as a percentage of total revenue/expenditure.

Statement No.10 indicates the distribution between the charged 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 and plan separately and capital expenditure by major head wise.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2002-03.

Statement No.14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies etc up to the end of 2002-03.

Statement No.15 depicts the capital and other expenditure to the end of 2002-03 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

Statement No.17 present detailed account of debt and other interest bearing obligations of the Government of Maharashtra.

Statement No.18 provides the detailed account of loans and advances given by the Government of Maharashtra, the amount of loan repaid during the year, the balance as on 31 March 2003.

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

1.2 Trend of Finances with reference to previous year

Financial position of the State Government during the current year as compared to the previous year was as under:

(Rupees in crore)

2001-02	Sr. No	Major Aggregates	2002-03
30093	1.	Revenue Receipts (2+3+4)	31103
21288	2.	Tax Revenue (Net)	22800
4655	3.	Non-Tax Revenue	4517
4150	4.	Other Receipts	3786
298	5.	Non-Debt Capital Receipts	469
298	6.	<i>Of which</i> Recovery of Loans	469
30391	7.	Total Receipts (1+5)	31572
36933	8.	Non-Plan Expenditure	40973
35401	9.	On Revenue Account	37230
6429	10.	<i>Of which</i> Interest Payments	7130
1532	11.	On Capital Account	3743
59	12.	Of which Loans disbursed	1704
4356	13.	Plan Expenditure	4889
2881	14.	On Revenue Account	3244
1475	15.	On Capital Account	1645
--	16.	Of which Loans disbursed	--
41289	17.	Total Expenditure (13+8)	45862
8189	18.	Revenue Deficit (9+14-1)	9371
10898	19.	Fiscal Deficit (17-7)	14290
4469	20.	Primary Deficit (19-10))	7160

1.3 Summary of Receipts and Disbursements

Table-1 summarises the finances of the Government of Maharashtra for the year 2002-03 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts 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 2002-03
(Rupees in crore)**

2001-02	Receipts	2002-03	2001-02	Disbursements	2002-03		
Section-A: Revenue							
30092.95	I Revenue receipts	31103.05	38281.52	I Revenue expenditure	37229.89	3244.41*	40474.30
21287.64	Tax revenue	22799.46	17730.54	General services	17826.92	119.89*	17946.81
4655.08	Non-tax revenue	4517.47	14136.81	Social services	12584.84	1632.99	14217.83
2468.76	Share of Union Taxes/Duties	2279.96	5875.71	Economical services	6145.45	1490.32	7635.77
1681.47	Grants from Government of India	1506.16	538.46	Grants-in-aid and Contributions	672.68	1.21	673.89
Section-B: Capital							
--	II Miscellaneous Capital Receipts	--	2947.88	II Capital Outlay	2038.60	1645.08	3683.68
298.09	III Recoveries of Loans and Advances	469.16	59.39	III Loans and Advances Disbursed	--	--	1704.08 [#]
8671.33	IV Public debt receipts	9758.42	1190.80	IV Repayment of Public Debt	--	--	1355.31 [#]
600.00	V Appropriation from Contingency Fund	450.00	250.00	V Appropriation to Contingency Fund	--	--	450.00 [#]
305.45	VI Contingency Fund	465.80	615.80	VI Contingency Fund	--	--	486.85 [#]
42368.85	VII Public account receipts	44867.16	39760.53	VII Public Account disbursements	--	--	38221.87 [#]
--	VIII Closing Overdraft from RBI	--	697.70	VIII Cash Balance at end	--	--	1435.20 [#]
83803.62	Total	87811.29	83803.62	Total			87811.29 [#]

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 2002-03 and wherever necessary show these in the light of time series data (**Appendix I to IV**) and periodic comparisons.

The key indicators adopted for analyzing 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.

* Higher rounding

[#] Bifurcation of plan and non plan not available

The reporting parameters are depicted in the 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 the GSDP at current market prices. The New GSDP series with 1993-94 as base as published by the Bureau of Economics and Statistics 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 1998-2003 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

<p style="text-align: center;">Consolidated Fund</p> <p>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 State' established under Article 266(1) of the Constitution of India.</p>	<p style="text-align: center;">Contingency Fund</p> <p>Contingency Fund of 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.</p>
<p style="text-align: center;">Public Account</p> <p>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 disbursement are made from it.</p>	

1.5 State Finances by key Indicators

1.5.1 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 of 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 Public Account.

Table-2 shows that the total receipts of the State Government for the year 2002-03 was Rs 87114 crore. Of which, the revenue receipts of the State Government was Rs 31103 crore only, constituting 36 *per cent* of the total receipts. The balance of receipts came from borrowings and receipts from Contingency Fund and Public Account.

Table-2: Resources of the Government of Maharashtra (Rupees in crore)

I Revenue Receipts		31103
II Capital Receipts		10228
Recovery of Loans and Advances	469	
Debt Receipts	9759	
III Appropriation from Contingency Fund		450
IV Contingency Fund		466
V Public Account Receipts		44867
a. Small Savings and Provident Fund	1406	
b. Reserve Fund	4439	
c. Deposit and Advances	5225	
d. Suspense and Miscellaneous	26510	
e. Remittance	7287	
Total Receipts		87114

1.5.2 Revenue Receipts

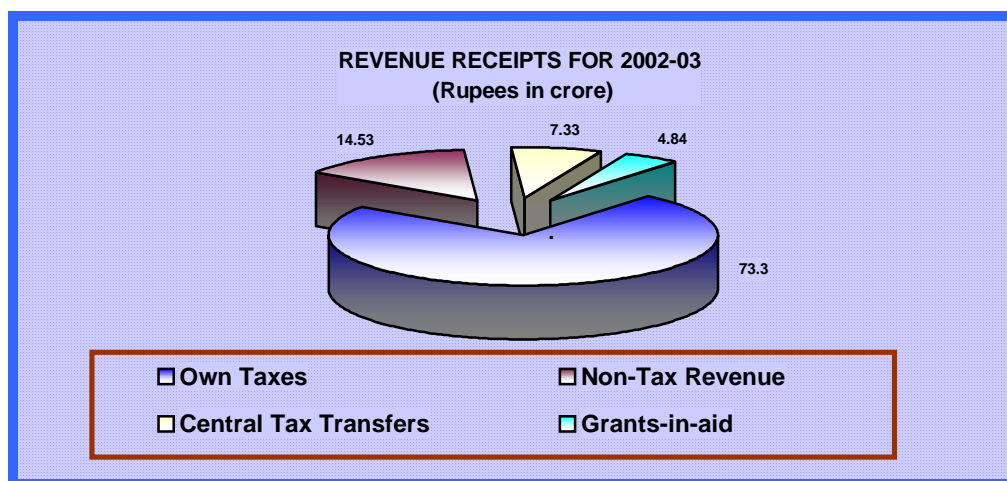
Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts of the State consist mainly of its own tax and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Revenue receipts of the State increased from Rs 21737 crore in 1998-99 to Rs 31103 crore in 2002-03, at an average trend rate of 9.77 per cent per annum. There were, however, significant inter year variations in the growth rates. The annual growth rate of revenue receipts, decreased sharply to 3.36 per cent in 2002-03 mainly due to less receipt of taxes on goods and passengers (Rs 782.36 crore) and correction of erroneous credit under contribution and recoveries towards pension and other retirement benefits during 2001-02 (Rs 428.14 crore). While on an average, around 85 per cent of the revenue had come from the State's own resources, central tax transfers and grants-in-aid together contributed nearly 15 per cent of the total revenue only.

Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in Table-3 below:

Table-3: Revenue Receipts- Basic Parameters

(Value: Rupees in crore and others in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Receipts (RR)	21737	25269	29567	30093	31103	27554
Own Taxes	65.340	68.320	66.720	71.740	73.300	68.880
Non-Tax Revenue	16.440	15.580	18.930	15.470	14.530	16.190
Central Tax Transfers	13.440	10.330	9.400	8.700	7.330	9.740
Grants-in-aid	4.780	5.770	4.950	5.590	4.840	5.190
Rate of growth of RR	6.990	16.250	17.010	1.780	3.360	9.770
RR/ GSDP	9.070	10.520	11.450	11.090	10.720	10.600
Revenue Buoyancy	0.222	77.439	2.264	0.350	0.486	1.187
GSDP Growth	31.500	0.210	7.510	5.090	6.900	8.230



Among the tax revenue, 11 *per cent* increase in Sales Tax, 16 *per cent* increase in Stamps and Registration Fees, 8 *per cent* growth in State Excise and 48 *per cent* increase in Land Revenue were the principal contributors. 131 *per cent* increase in Miscellaneous General Services (MGS) was however insufficient to prevent the decline (Rs 138 crore) of the non-tax revenue during the year. Rs 316.17 crore increase in MGS during the year was mainly due to more receipt from sale of lottery tickets (Rs 152.53 crore), guarantee fees (Rs 112.92 crore) and other receipts (Rs 60.05 crore).

Sales tax was the major source of State's own tax revenue having contributed 52 *per cent* of the tax revenue followed by Stamps and Registration fees (12 *per cent*). Of non-tax revenue sources, interest receipts (39 *per cent*) and Dairy Development (18 *per cent*) were principal contributors. However, 90 *per cent* of the interest receipts (Rs 1777 crore) was only notional in nature arising out of book adjustments. While the contribution of grants-in-aid increased to 4.84 *per cent* in 2002-03 from 4.78 *per cent* in 1998-99, the contribution of Central Tax Transfers continued to decline throughout the period and came down to 7.33 *per cent* in 2002-03 from 13.44 *per cent* during 1998-99.

The Medium Term Fiscal Reforms Programme agreed to (October 2002) by the Government of Maharashtra with Government of India provides for improving cost recoveries for Government services by enhancing user charges periodically and bringing new areas of Government services for cost recovery. Non-tax revenue in nominal terms has however steadily declined from Rs 5596 crore in 2000-01 to Rs 4517 crore in 2002-03. The current levels of cost recovery in supply of merit goods and services by Government are 0.02 *per cent* for secondary education, 0.23 *per cent* for university and higher education, 5.23 *per cent* for technical education, 5.94 *per cent* in health and family welfare, 0.40 *per cent* in water supply and sanitation, 6.83 *per cent* in major and medium irrigation and 5.36 *per cent* in minor irrigation.

The arrears of revenue pending collection as at the end of 2002-03 were Rs 5879 crore. There had been an increase of 29 *per cent* in accumulation of such arrears and pertained mainly to taxes on Sales, Trade, etc (Rs 5673 crore)

Motor Vehicles (Rs 171 crore), Electricity Duty (Rs 24 crore) and State Excise (Rs 11 crore).

The source of receipts under different heads and GSDP during 1998-2003 is indicated in table-4.

Table-4: Source of Receipts – Trends (Rupees in crore)

Year	Revenue Receipts	Capital Receipts				Total Receipts	Gross State Domestic Product
		Non-Debt Receipts ⁺	Debt Receipts	Contingency Fund Receipts	Accruals in Public Account		
1998-99	21737	571	5517	131	30342	58298	239721
1999-2000	25269	1251	6058	1773	37750 ¹	72101	240224
2000-01	29567	3295	6744	367	38319	78292	258272
2001-02	30093	898	8671	306 ¹	42369	82337	271406
2002-03	31103	919	9759 ¹	466	44867	87114	290142 ^A

The arrears of revenue indicated as of March 2003 however do not reflect the total arrears, as particulars from all departments were not made available.

1.6 Application of resources

1.6.1 Trend of Growth

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure major head wise. The total expenditure of the State increased from Rs 29470 crore in 1998-99 to Rs 45862 crore in 2002-03 at an average trend rate of 11.37 per cent per annum.

Table-5: Total Expenditure – Basic Parameters

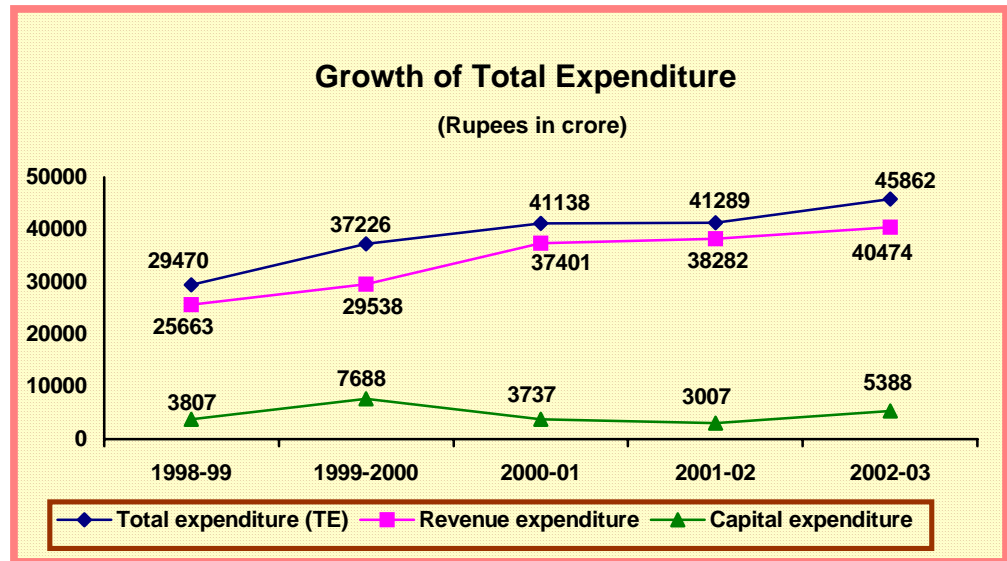
(Value : Rupees in crore and others in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Total expenditure (TE)	29470	37226	41138	41289	45862	38997
Rate of Growth	9.340	26.320	10.510	0.370	11.080	11.370
TE/GSDP Ratio	12.290	15.500	15.930	15.210	15.810	15.000
RR /TE Ratio	73.760	67.880	71.870	72.880	67.820	70.840
Buoyancy of Total Expenditure with reference to:						
GSDP	0.296	125.428	1.399	0.072	1.604	1.381
RR	1.336	1.620	0.618	0.206	3.300	1.164

⁺ Including Appropriation from Contingency Fund and Inter State Settlement

¹ Higher rounding

^A Provisional



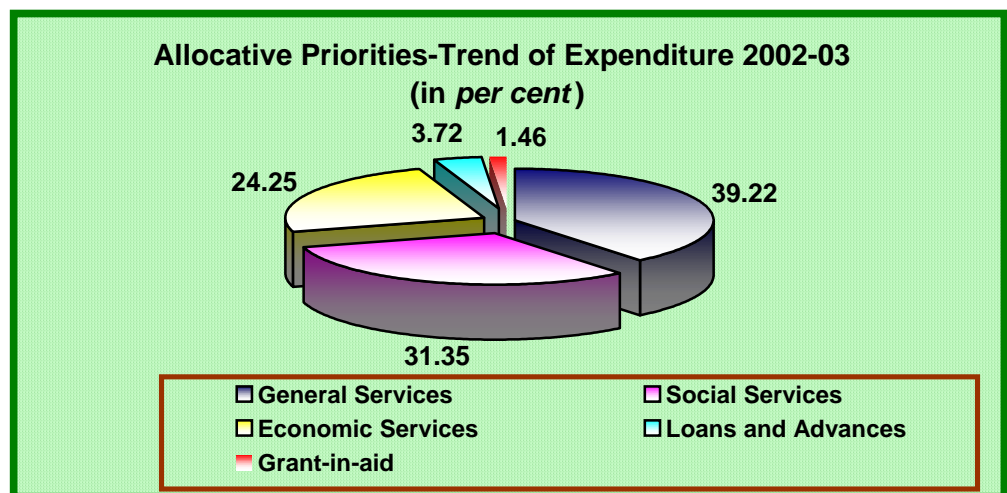
In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grant-in-aid and loans and advances.

The relative share of activity components in total expenditure is indicated in Table-6.

Table-6: Components of Expenditure – Relative Share (in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
General Services	36.27	33.89	35.85	43.03	39.22	37.65
Social Services	32.94	30.52	35.18	34.56	31.35	32.91
Economic Services	28.11	23.54	29.06	20.96	24.25	25.18
Grant-in-aid	0.60	1.50	1.67	1.31	1.46	1.31
Loans and Advances	2.08	10.55	(-)1.76	0.14	3.72	2.95

The movement of relative share of these components of expenditure indicated that while the share of Economic Services and Social Services in total



expenditure declined from 28.11 per cent and 32.94 per cent to 24.25 per cent

and 31.35 *per cent* respectively during 1998-2003, the relative share of General Services, which is primarily non developmental in nature, increased from 36.27 *per cent* in 1998-99 to 39.22 *per cent* of total expenditure in 2002-03, mainly due to increase in interest payment.

1.6.2 Incidence of Revenue expenditure

Revenue expenditure is usually incurred to maintain the current level of assets and services. Revenue expenditure of the State increased from Rs 25663 crore in 1998-99 to Rs 40474 crore in 2002-03, at an average trend rate of 13.02 *per cent per annum*. The increase in the revenue expenditure during 2002-03 was mainly due to assistance to Maharashtra State Road Development Corporation for payment of interest on bonds (off-budget borrowings) under the head “roads and bridges” by Rs 868.36 crore (1208 *per cent*), Interest payments by Rs 700.67 crore (11 *per cent*), Taxes on Sales, Trades, etc by Rs 314.86 crore (18 *per cent*) and Other Rural Development programme by Rs 226.36 crore (62 *per cent*).

Overall 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:

Table-7: Revenue Expenditure: Basic Parameters

(Value : Rupees in crore and others in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Expenditure	25663	29538	37401	38282	40474	34271.60
Rate of Growth	12.08	15.10	26.62	2.36	5.73	13.02
RE/GSDP	10.71	12.30	14.48	14.11	13.95	13.18
RE as <i>per cent</i> of TE	87.08	79.35	90.92	92.72	88.25	87.88
RE as <i>per cent</i> of Revenue Receipt	118.06	116.89	126.50	127.21	130.13	124.38
Buoyancy of Revenue Expenditure with						
GSDP	0.383	71.962	3.543	0.463	0.829	1.582
Revenue Receipts	1.728	0.929	1.565	1.324	1.706	1.333

The revenue expenditure accounted for 88 *per cent* of total funds available during 2002-03. This was higher than the share of the revenue receipts (36 *per cent*) in the total receipts of the State Government. This led to all time high Revenue Deficit of Rs 9371 crore. The ratio of revenue expenditure to revenue receipt was also on the rise indicating increasing dependence of the State Government on borrowed funds for even meeting the current expenditure primarily due to the fact that non developmental expenditure viz. Salaries (Rs 14703 crore[^]), Interest payments (Rs 7130 crore) and Pension (Rs 2526 crore) alone consumed more than three-fourth (78 *per cent*) of the revenue receipts of the State during the year.

[^] Projected for 2003-04 in Medium Term Fiscal Reforms Programme of Government of Maharashtra

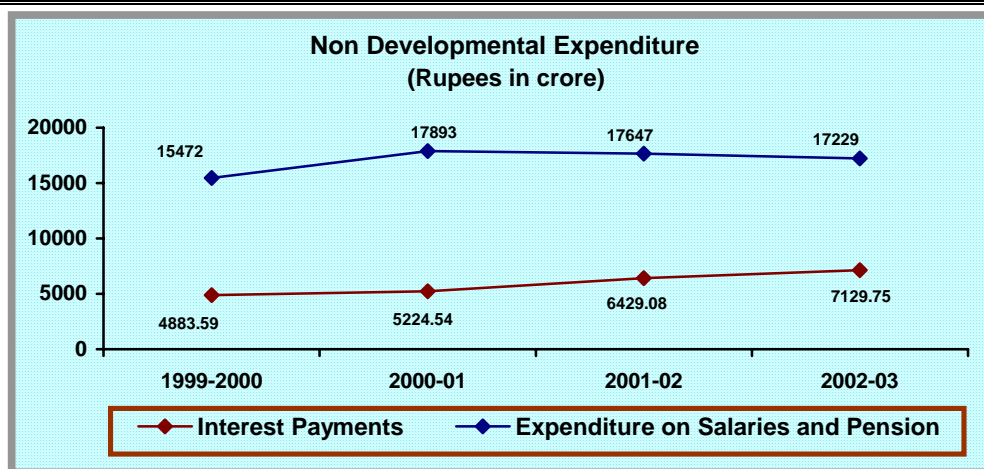
1.6.3 Committed Expenditure

➤ **High salary expenditure and pension payments**

Salaries and pension alone accounted for nearly 55 per cent of the revenue receipts of the State during 2002-03. The expenditure on salaries and pension increased from Rs 15472 crore in 1999-2000 to Rs 17229 crore in 2002-03, an increase of 11 per cent over a period of four years.

Table-8: Salary and Pension expenditure (Rupees in crore)

Heads	1999-2000	2000-01	2001-02	2002-03
Salary and Pension Expenditure	15472	17893	17647	17229
As per cent of GSDP	6.44	6.93	6.50	5.94
As per cent of Revenue Receipts	61.23	60.52	58.64	55.39



➤ **Interest payments**

In absolute terms, interest payments increased by 94 per cent from Rs 3673.13 crore in 1998-99 to Rs 7129.75 crore in 2002-03 primarily due to continued reliance on borrowings for financing the fiscal deficit.

Table-9: Interest payment

Year	Total Revenue Receipts (Rupees in crore)	Interest Payment*	Percentage of Interest payment with reference to	
			Total Revenue Receipts	Revenue Expenditure
1998-99	21737	3673	17	14
1999-2000	25269	4884	19	17
2000-01	29567	5225	18	14
2001-02	30093	6429	21	17
2002-03	31103	7130	23	18

The Eleventh Finance Commission (August 2000) had recommended that as a medium term objective, States should endeavour to keep interest payments as a ratio to revenue receipts at 18 per cent. It was, however, observed that

* Rounded to nearest whole number.

interest payments as percentage of revenue receipts has steadily risen from 18 *per cent* in 2000-01 to 23 *per cent* in 2002-03. The steady increase in the interest payment was primarily due to ever increasing debt stock of the State.

During 2002-03, the State Government raised Rs 1074.85 crore at the average interest rate of 7.59 *per cent* from open market. Besides, it also borrowed Rs 7722 crore from National Small Savings Fund, Life Insurance Corporation of India, and other institutions etc, and Rs 961.78 crore from Government of India during the year.

1.6.4 Subsidy

Subsidy can be defined as the difference between the cost of goods/services provided and realisation from the users. There are two types of subsidies viz. explicit subsidies and implicit subsidies. While there is clear identification and budgetary allocation in respect of explicit subsidies, implicit subsidies arise due to non-recovery/short recovery of user charges provided.

Though the finances of the State are under strains, State Government has been paying subsidies to various Corporations, etc. During the last three years, State Government paid the subsidies as under:

Table-10: Subsidy

Year	Amount (Rupees in crore)	Percentage increase (+)/decrease (-) over previous year	Percentage of subsidy with Revenue receipts
2000-01	468.62	--	1.58
2001-02	1799.64	284.03	5.98
2002-03	2008.65	11.61	6.46

During the current year, subsidies constituted four *per cent* of the total expenditure, of which Rs 767.63 crore (38 *per cent*) was given to the Maharashtra State Road Development Corporation and Rs 711.59 crore (35 *per cent*) was given to Maharashtra State Electricity Board for reduction in Agricultural Tariff.

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 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 ratio of these components of expenditure to State's total expenditure.

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

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Plan Expenditure	20.39	16.45	15.79	10.57	11.07	14.37
Capital Expenditure	11.07	11.29	10.66	7.15	8.34	9.53
Developmental Expenditure	62.34	60.44	63.12	55.60	57.74	59.64

(Total expenditure does not include Loans and Advances).

All the three components of expenditure show a relative decline during 1998-2003. Plan expenditure declined from 20.39 *per cent* in 1998-99 to 11.07 *per cent* in 2002-03. Similarly, capital expenditure also declined from 11.07 *per cent* in 1998-99 to 8.34 *per cent* in 2002-03. Out of the total capital expenditure of Rs 3684 crore during the year, two-third expenditure (Rs 2513 crore) was under major head Irrigation and flood control on account of Special Purpose Vehicles created (five Irrigation Corporations) for raising the Off-Budget Borrowings (please refer para 1.9.3). There was also a decline in the share of developmental expenditure from 62.34 *per cent* in 1998-99 to 57.74 *per cent* in 2002-03. The share of expenditure on these components decreased significantly in 2002-03 as compared to the level achieved in 1998-99.

Out of the developmental expenditure (Rs 25497.90 crore), Social Services (Rs 14377.11 crore) accounted for 56 *per cent* of the developmental expenditure during the year. Education and Health and Family Welfare consumed nearly three-fourth (74 *per cent*) of the expenditure on social sector.

Table-12: Social Sector Expenditure (Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Education, Sports, Art and Culture	5356.17	7303.02	9420.25	9387.91	8941.42
Health and Family Welfare	1185.49	1393.22	1634.28	1834.74	1751.74
Water Supply, Sanitation, Housing and Urban Development	1366.74	1279.07	1479.30	1010.67	1495.53
Total	7908.40	9975.31	12533.83	12233.32	12188.69

Out of the expenditure on Economic Services (Rs 11120.79 crore), Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 87 *per cent* of the expenditure.

Table-13: Economic Sector Expenditure (Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Agriculture, Allied Activities	2621.05	3355.59	3041.01	2893.40	2800.91
Irrigation and Flood Control	2975.87	3348.60	2823.32	3052.65	4324.99*
Energy	317.18	231.68	4599.89	1006.28	1049.80
Transport	1011.47	946.92	750.28	873.86	1519.40
Total	6925.57	7882.79	11214.50	7826.19	9695.10

* includes notional interest of Rs 1523 crore on 14 irrigation projects handed over to Irrigation Development Corporations (SPVs)

Financial Assistance to local bodies and other institutions**1.7.1 Extent of assistance**

Autonomous bodies and authorities perform non-commercial functions of public utility services. These bodies/authorities receive substantial financial assistance from Government. Government also provides substantial financial assistance to other institutions such as those registered under respective State Co-operative Societies Act, Companies Act, etc to implement various programmes of Government. The grants are given by Government mainly for construction and maintenance of educational institutions, hospitals, charitable institutions, improvement of roads and other communications facilities under municipalities and local bodies.

The quantum of assistance provided to different local bodies etc., during the period of five years ending 2002-03 was as follows:

Table-14: Financial Assistance (Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Education Institutions (Aided Schools, Aided Colleges, Universities, etc.)	3372.82	2660.04	2633.08	1483.20	525.60
Municipal Corporations and Municipalities	417.73	563.73	552.88	612.50	378.40
Zilla Parishads and Other Panchayati Raj Institutions	2647.99	3220.94	1958.15	3383.96	696.96
Development Agencies	81.91	1071.20	124.45	1277.55	441.62
Hospital and Other Charitable Institutions	0.49	38.35	52.57	232.49	208.19
Other Institutions	1422.99	1917.33	1979.46	3990.44	3007.78
Total	7943.93	9471.59	7300.59	10980.14	5258.55
Assistance as per percentage of revenue receipts	36.55	37.48	24.69	36.49	16.91

1.7.2 Delay in furnishing utilisation certificates

Of the 68951 utilisation certificates (UC) due in respect of grants and loans aggregating Rs 12104.10 crore paid upto 2002-03, 63830 UCs for an aggregate amount of Rs 10433.76 crore were in arrears. Details of departmentwise break-up of outstanding UCs are given in **Appendix VI**.

1.7.3 Delay in submission of accounts

In order to identify the institutions which attract audit under Section 14/15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, Government/Heads of Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure

of the institutions. As of August 2003, 23 departments of Government have not furnished details for the year 2002-03 as shown in **Appendix VII**.

1.7.4 Abstract of performance of the autonomous bodies

The audit of accounts of the following bodies has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the legislature is indicated in **Appendix VIII**.

1.7.5 Misappropriation, losses and defalcations, etc

State Government reported 309 cases of misappropriation, defalcation etc of Government money amounted to Rs 6.51 crore upto the period September 2003 on which final action was pending as on September 2003. The departmentwise break up of outstanding cases is given in **Appendix IX**.

1.7.6 Write off of losses, etc

During 2002-03, Rs 31.89 lakh representing losses due to theft, fire and irrecoverable revenue, etc were written-off in 450 cases by competent authorities as reported to audit. The relevant details are given in **Appendix X**.

1.8 Assets and Liabilities

The Government accounting system does not attempt a comprehensive accounting of fixed assets, ie 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 I** presents an abstract of such liabilities and the assets as on 31 March 2003, compared with the corresponding position on 31 March 2002. While 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. During 2002-03, the liabilities grew by 20 per cent and the assets grew by 11 per cent.

The liabilities of Government of Maharashtra depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired State employees, guarantees/letters of comforts issued by the State Government. In Fiscal Responsibility and Budgetary Management Bill (FRBMB) 2003, the Government has agreed to present to the State Legislature, every year along with annual budget pension liabilities worked out on actuarial basis. **Appendix I to IV** depict the time series data on State Government finances for the period 1998-2003.

1.8.1 Financial results of irrigation works

Out of 18 irrigation projects, 14 irrigation projects have been handed over to the five Irrigation Corporations created during 1996-1998. The financial results of the remaining four major irrigation projects with a capital expenditure of Rs 298.78 crore at the end of March 2003, showed that revenue realised from these projects during 2002-03 (Rs 42.93 crore) was 14.37 per cent of the capital expenditure. After considering the working and maintenance expenses (Rs 7.26 crore) and interest charges (Rs 31.20 crore), the schemes gained a net profit of Rs 4.47 crore during 2002-03.

1.8.2 Incomplete projects

As per Finance Accounts, as of 31 March 2003, there were 133 incomplete projects in which Rs 3829.26 crore were blocked. Of these, 87 projects amounting to Rs 2353.19 crore remained incomplete for less than five years, 29 projects amounting to Rs 1336.96 crore remained incomplete for period ranging from five to ten years, one project amounting to Rs 1.24 crore remained incomplete for period of 17 years and three projects amounting to Rs 71.41 crore remained incomplete for more than 20 years. Details in respect of 13 Projects involving capital of Rs 66.46 crore are not available. This showed that the Government was spreading its resources thinly, which failed to yield any return. Reasons for incomplete projects were paucity of funds, works left incomplete by contractors, change in site/design of the project(s), defective planning etc. Comments on some incomplete projects had been included in the Civil Audit Reports.

1.8.3 Departmental Commercial Undertakings.

Activities of *quasi*-commercial nature are performed by the departmental undertakings of certain Government departments. The undertakings are to prepare *pro forma* accounts in the prescribed format annually showing the results of financial operation so that Government can assess the results of their working.

As of March 2003, there were 50 such undertakings in the State including Printing Presses. Of which, only 23 undertakings (Government Milk Schemes) have finalised their *pro forma* accounts for 2002-03 by 30 September 2003 and accounts of 27 undertakings are in arrears. Out of 43 Government Milk Schemes (GMSs) in six regions¹ only 23 GMSs have finalized their *pro forma* accounts for 2002-03 by 30 September 2003 and accounts of balance 20 GMSs are in arrears. In respect of 23 GMSs as of 31 March 2003, the Government mean capital is Rs 413.15 crore in these schemes with a turn over of Rs 333.06 crore. These 23 GMSs suffered the net loss of Rs 138.66 crore during the year. In respect of remaining 20 GMSs, the net loss of Rs 104.83 crore has virtually wiped out the Government mean capital of Rs 134.21 crore as of 31 March 2002. The presses have not compiled *pro forma* accounts since 1968-69. These were declared as commercial undertaking in 1968-69.

¹ Amravati, Aurangabad, Mumbai, Nagpur, Nashik and Pune

The Comptroller and Auditor General of India have repeatedly commented about the arrears in preparation of accounts. Accountant General (Commercial Audit) reminded Principal Secretary (Finance) and the Secretary of the departments concerned regularly in this matter. The department-wise position of arrears in preparation of *pro forma* accounts and the investment made by the Government are given in **Appendix XI and XII** respectively. The summarised financial statement of these undertakings is given in **Appendix XIII**.

1.8.4 Investments and returns

As of 31 March 2003, Government had invested Rs 13605.01 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Cooperatives. Government's return on this investment was (less than half *per cent*) as indicated in Table-15 below. As on March 2003, 49 companies in which Government had invested Rs 1400.42 crore (Share Capital: Rs 650.53 crore, Loan: Rs 749.89 crore) were incurring losses and their accumulated losses amounted to Rs 1170.53 crore. As on March 2003, 9952 societies with an aggregate investment of Rs 182.96 crore (Rs 118.18 crore by way of equity and Rs 64.78 crore by way of loan) had incurred losses and their accumulated losses (Rs 185.68 crore) had completely eroded the investments made in these societies.

Table-15: Return on Investment

Year	Investment at the end of the year	Return	Percentage of Return	Average rate of Interest on Government Borrowing
	(Rupees in crore)			(per cent)
1998-99	5440.01 [#]	6.01	0.11	9.42
1999-2000	6784.45 [#]	3.96	0.06	10.30
2000-01	9685.85 [#]	3.95	0.04	9.10
2001-02	11155.07	4.53	0.04	9.38
2002-03	13605.01	1.86	0.01	8.91

Further, in most cases, Government orders sanctioning the loans did not specify the terms and conditions for these loans

1.8.5 Loans and advances by State Government

In addition to its investments, Government has also been providing loans and advances to many of these bodies. Total outstanding balance of loans and advances was Rs 9693 crore as on 31 March 2003 (Table 16). Overall the interest received against these advances declined to 1.94 *per cent* during 2002-03 though the Government has been borrowing the funds from different sources at the rates ranging from 6.93 to 11.50 *per cent*.

[#] Differs from previous year due to *pro forma* correction.

Table-16: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Opening Balance	7998	8342	12018	8697	8458
Amount advanced during the year	614	3927	-726	59	1704
Amount repaid during the year	270	251	2595	298	469
Closing Balance	8342	12018	8697	8458	9693
Net addition	344	3676	-3321	-239	1235
Interest Received*	262	245	1685	341	176
Interest received as <i>per cent</i> to Loans advanced	3.21	2.41	16.27	3.98	1.94
Average interest paid by the State	9.42	10.30	9.10	9.38	8.91
Difference between interest paid and received	-6.21	-7.89	7.17	-5.41	-6.97

1.8.6 Management of Cash Balances

It is desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. Maharashtra has the WMA limit of Rs 60 crore from 1 April 2002 and Rs 905 crore from 3 March 2003. During the year, the State has used this mechanism for 301 days as against 332 days last year.

Resort to overdraft, which is over and above the WMA limits, is all the more undesirable. The State used the overdraft facilities for 154 days on 17 occasions during the year as against 76 days on 15 occasions last year although it raised borrowings of Rs 1074 crore from the market on four occasions. Besides, the Government has been resorting to Off-budget borrowings through the Special Purpose Vehicles created by them. (please refer to paragraph 1.9.3).

Table-17: Ways and Means and Overdrafts of the State (Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Ways and Means Advance					
Taken in the Year	--	298.97	4415.13	7739.88	7716.25
Outstanding	--	--	--	--	--
Interest Paid	--	--	12.18*	33.99	34.46
Number of Days	--	--	--	332 ⁺	301 ⁺
Overdraft					
Taken in the year	--	--	1536.54	4691.87	6281.28
Interest Paid	--	--	--	7.04	8.42
Number of Days	--	--	49	76	154

The above table indicates that the dependence on Reserve Bank of India (RBI) for cash management has continued unabatedly in spite of periodical revision of WMA limits by RBI.

* excludes notional interest accounted arising out of book adjustments.

* Rs 12.18 crore includes interest paid on ways and means and overdraft.

⁺ Figures are taken from Reserve Bank of India State Finances 2002-03.

1.9 Undischarged Liabilities

1.9.1 Fiscal Liabilities - Public Debt and Guarantees

The Constitution of India provides that 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.

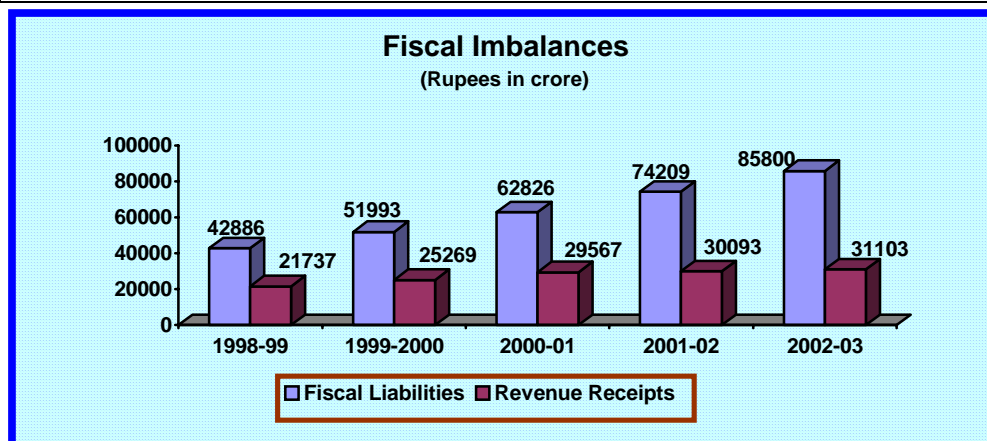
Statement 4 read with Statements 16 and 17 of Finance Accounts shows the year-end balances under Debt, Deposit and Remittance heads from which the liabilities are worked out. The fiscal liabilities of the State increased from Rs 42886 crore in 1998-99 to Rs 85800 crore in 2002-03 at an average growth rate of 19.73 per cent. These liabilities as ratio to GSDP increased from 17.90 per cent in 1998-99 to 29.60 per cent in 2002-03/and stood at 2.76 times of its revenue receipts.

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 the buoyancy of these liabilities with respect to these parameters.

Table-18: Fiscal Liabilities - Basic Parameters

(Value: Rupees in crore and others in per cent)

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Fiscal Liabilities	42886	51993	62826	74209	85800	63543
Rate of Growth	22.17	21.24	20.84	18.12	15.62	19.73
Ratio of Fiscal Liabilities to						
GSDP	17.90	21.60	24.30	27.30	29.60	24.40
Revenue Receipts	197.30	205.80	212.50	246.60	275.90	224.10
Own Resources	241.30	245.20	248.10	286.00	314.10	264.10
Buoyancy of Fiscal Liabilities to						
GSDP	0.704	101.204	2.773	3.563	2.263	2.397
Revenue Receipts	3.172	1.307	1.225	10.184	4.654	2.020
Own Resources	9.275	1.101	1.072	7.400	2.949	1.868



These fiscal liabilities, however, do not include the pension liabilities payable to serving/retired State employees, off-budget borrowings/liabilities, risk weighted guarantees/contingent liabilities, power subsidies payable to MSEB etc In the FRBMB introduced in the State Legislature in April 2003, the Government has agreed to disclose the pension liabilities worked out on

actuarial basis for the next ten years and classify the guarantee obligation based on risk of devolvement.

In addition to these liabilities, Government had guaranteed loans of Rs 37521.19 crore (12.93 *per cent* of GSDP) to its Corporations and others as of 31 March 2003. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment, the State has to honour these commitments.

Besides these, the Government has also been resorting to the off-budget borrowing through special purpose vehicles (refer para 1.9.3). The fast rising fiscal liabilities to GSDP ratio (29.60 *per cent* of GSDP) followed by substantial exposure in guarantees (12.93 *per cent* of GSDP) and off-budget borrowings raised the issue of sustainability. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. However, in case of Maharashtra average interest rate on fiscal liabilities at 9.42 *per cent* during 1998-2003 was higher than the rate of growth of GSDP by 1.19 *per cent* as indicated in Table-19.

Table-19: Debt Sustainability–Interest Rate and GSDP Growth (in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Weighted Interest Rate	9.42	10.30	9.10	9.38	8.91	9.42
GSDP Growth	31.50	0.21	7.51	5.09	6.90	8.23
Interest spread	22.08	(-)10.90	(-)1.59	(-)4.29	(-)2.01	(-)1.19

Another important indicator of debt sustainability is net availability of the funds after payment of the principal on account of the earlier contracted liabilities and interest. The net funds available on account of the internal debt and loans and advances from the Government of India after providing for the interest and repayments varied from 19.51 *per cent* to 30.52 *per cent* during 1998-2003.

Table-20 below gives the position of the receipt and repayment of public debt over the last five years.

Table-20: Net Availability of Borrowed Funds (Rupees in crore)

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Internal Debt²						
Receipt	800	1155	1343	2335	8797	2886
Repayment (Principal+Interest)	655	825	958	2298	3064	1560
Net Fund Available	145	330	385	37	5733	1326
Net Fund Available (<i>per cent</i>)	18.12	28.57	28.67	1.58	65.17	45.95
Loans and Advances from GOI						
Receipt	4717	4903	5401	6337	962	4464
Repayment (Principal+Interest)	3178	3853	4470	4017	4179	3939

² Excluding Ways and Means Advances and Overdrafts from Reserve Bank of India/ Government of India.

Net Fund Available	1539	1050	931	2320	(-)3217	525
Net Fund Available (per cent)	32.63	21.42	17.24	36.61	(-)334.41	11.76
Total Public Debt						
Receipt	5517	6058	6744	8672	9759	7350
Repayment (Principal+Interest)	3833	4678	5428	6315	7243	5499
Net Fund Available	1684	1380	1316	2357	2516	1851
Net Fund Available (per cent)	30.52	22.78	19.51	27.18	25.78	25.18

The State Government raised market loans of Rs 1074.85 crore during the year. The average rate of market borrowing during the year was 7.59 per cent. As on 31 March 2003, 75 per cent of the existing market loans carried interest rate exceeding 10 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 market loans indicates that nearly one-third (30 per cent) of the total market loans are repayable within the next five years while remaining 70 per cent loans are required to be repaid within 5 to 10 years.

1.9.2 Guarantees

The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment, the State has to honour these commitments. The State has been resorting to guarantees for raising the resources in a big way during last five years. The year-wise position of maximum amount for which guarantee given by the State Government to the end of March 2003 was as under:

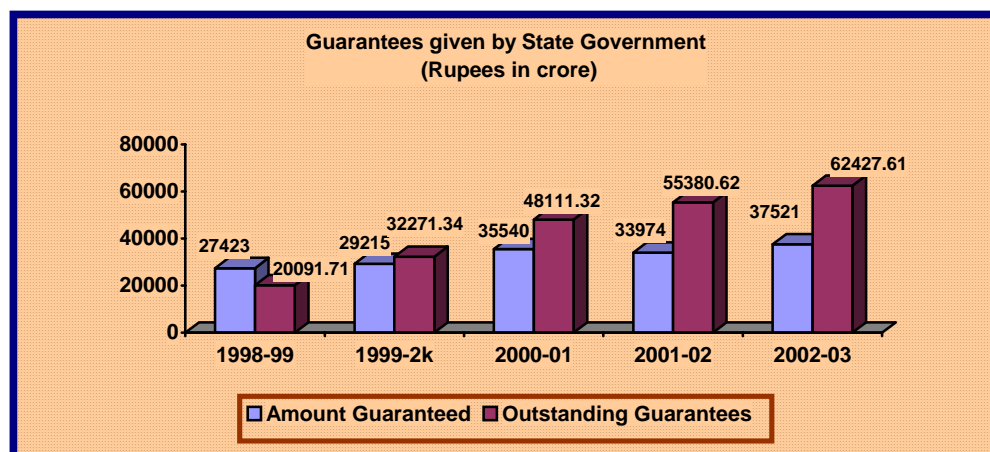
Table-21: Guarantees given by the Government of Maharashtra
(Rupees in crore)

Year	Maximum amount guaranteed^A	Outstanding* amount of guarantees	Percentage to total revenue
1998-99	27423.01	20091.71	126
1999-2000	29214.78	32271.34	116
2000-01	35540.20	48111.32	120
2001-02	33974.20	55380.62	113
2002-03	37521.19	62427.61	121

The outstanding guarantees (Rs 62427.61 crore) amounted to 200.71 per cent of the revenue receipt (Rs 31103.05 crore) of the State Government.

^A As per Finance Accounts of respective years

* As per information received from Finance Department compiled on the basis of information received from Administrative Departments



The State Government Corporations/Autonomous bodies/Boards floated Government guaranteed Bonds resulting in increase in guarantees during 1999-2002 by Rs 20109.30 crore. Out of this Rs 924 crore were for repayment of previous debts. The Corporations could not raise the entire funds proposed due to poor response by the market on account of the defaults of the Maharashtra Krishna Valley Development Corporation (MKVDC) and the downgrading of the State Government's credit rating.

Despite cumulative loss of Rs 2028.32 crore sustained by the Maharashtra State Co-operative Marketing Federation due to operation of the Cotton Monopoly Procurement Scheme, the Government guaranteed Rs 7026.86 crore raised by the Federation.

The State Government has yet to honour guarantees worth Rs 334.47 crore as on March 2002 invoked by three financial institutions and also negotiations were in progress with the financial institutions. The State Government extended further guarantees of Rs 251.66 crore to 20 sugar factories despite earlier defaults and invocation of guarantees, during the period 1996-2002.

1.9.3 Off-Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. Though off-budget borrowings are not permissible under Article 293 (3), the State continues to undertake such off-budget borrowings. The Government have raised the off-budget borrowings of Rs 13019 crore during the period 1998-99 to 2002-03 as per the data furnished by the Finance Department.

Table-22: Off-Budget Borrowings

Year	Amount (Rupees in crore)
1998-99	2665
1999-2000	3150
2000-01	3572
2001-02	1850
2002-03	1782
Total	13019

The Government created a number of special purpose vehicles in irrigation, road development and sales tax sector during 1996-98 to raise the off-budget borrowings by way of bonds from the market or on private placement basis. The payment of principal and interest on these bonds is normally guaranteed by the Government. The Government makes the budgetary provisions in the years of repayment of interest and principal of the bonds.

The details of some of the special purpose vehicles created for the purpose of such borrowings revealed as follows:

➤ ***Maharashtra State Road Development Corporation***

Maharashtra State Road Development Corporation Limited (Corporation) was incorporated in August 1996 under Companies Act, 1956 with the objective of constructing flyovers, express highways, roads and bridges throughout the State. The paid up share capital of the Corporation was Rs 5 crore as on 31 March 2002 fully subscribed by the Government of Maharashtra. The Corporation raised funds to the tune of Rs 2762.58 crore (upto 31 March 2001) through public issue of bonds which would be repayable by way of collection of toll tax from the users. As on 31 March 2001, the Corporation incurred an accumulated loss of Rs 62.66 crore. During 2002-03, the Government paid an assistance of Rs 768 crore to the Corporation for repaying interest and other liabilities.

➤ ***Maharashtra Vikrikar Rokhe Pradhikaran Limited***

Government of Maharashtra formed (May 2001) Maharashtra Vikrikar Rokhe Pradhikaran Limited, under Companies Act, 1956, as a special purpose vehicle (SPV) to raise funds through issue of bonds that would be used for reducing backlog of the subsidy sanctioned under the package scheme of incentives. The State Government would in turn collect the deferred sales tax when due from the units and guarantee debt service by SPV through an appropriate budgetary provision. Company's paid up share capital of Rs 5 lakh was contributed by SICOM (49 per cent), Maharashtra State Finance Corporation (49 per cent) and Maharashtra Small Scale Industries Development Corporation (2 per cent). The company raised Rs 217.02 crore through private placement of bonds and distributed Rs 206.74 crore through four Government companies as directed by Government of Maharashtra for clearing backlog of incentives. Government of Maharashtra instead of providing budgetary support had raised funds from public through SPV for disbursing the incentives.

➤ ***Irrigation Development Corporations (IDCs)***

Maharashtra Government created five irrigation corporations during 1996-98 namely Maharashtra Krishna Valley Development Corporation (MKVDC), Konkan Irrigation Development Corporation (KIDC), Tapi Irrigation Development Corporation (TIDC), Vidarbha Irrigation Development Corporation (VIDC) and Godavari Marathwada Irrigation Development Corporation (GMIDC) to undertake irrigation projects and also maintain

existing projects. These SPVs raised part of their requirement of resources as bonds guaranteed by the Government. During 2002-03, State Government have paid an assistance of Rs.2234 crores to these five Corporations. Of which, Rs 1908 crore have been paid for making payment of interest to the bond holders.

Table-23: Irrigation Development Corporations (Rupees in crore)

	Investment in share capital up to 2001-02	Investment in share capital during 2002-03	Accumulated losses as on 31.3.2002	Amount guaranteed during 2002-03
KIDC	59.47	75.47	49.94	401.56
MKVDC	2820.53	1482.78	2474.60	1963.45
VIDC	723.98	254.92	162.84	1073.10
GMIDC	443.16	269.40	397.25	586.39
TIDC	570.23	152.17	158.63	482.74
Total:	4617.37	2234.74	3243.26	4507.24

In spite of huge accumulated losses of these Corporations as on 31 March 2002, Government extended guarantees to them for the loans/bonds amounting to Rs 4507.24 crore raised during 2002-03 with the inherent risk of invocation. In the FRBMB 2003, submitted to the State Legislature, the Government had agreed to treat the borrowings by the Public Sector Undertakings with negative net-worth and which have made losses for two consecutive years as borrowings by the Government.

Government had also invested Rs 4617.37 crore in share capital of above Irrigation Corporations till March 2002 and in spite of accumulated loss of Rs 3243.26 crore, it further invested Rs 2234.74 crore during 2002-03. In respect of MKVDC, KIDC and GMIDC, share capital was nearly wiped out due to accumulated loss.

These Corporations raised funds at minimum interest rate of 11 to 12 *per cent per annum* when the funds were available to the state at cheaper rates in the market. This resulted in loss due to interest rate differential amounting to Rs 31.21 crore during 2001-02.

Of these IDCs, scrutiny of the account of MKVDC was done and following points were observed:

➤ ***Maharashtra Krishna Valley Development Corporation***

Maharashtra Krishna Valley Development Corporation (MKVDC), established in 1996, has raised Rs 5752 crore from the open market through Government guaranteed bonds during 1996-2003 at the rates of interest ranging from 11.5 to 17.5 *per cent*. Since water charges from sale of water were not even sufficient to meet the interest on the bonds etc, Government had to make available grant of Rs 2469 crore for making the payment of interest to bond holders, besides paying Rs 425 crore for redemption of the bonds. During 2001-02, the latest year for which audited accounts are available, MKVDC generated a revenue of Rs 126 crore as against the interest and finance cost of Rs 840 crore, leading to loss of Rs 768 crore. As of 31 March 2002, the accumulated loss of Rs 2475 crore has eroded the equity capital of the Corporation. As a result, Government will not only have to pay the interest

to bond holders but also the entire sum of principal. Incidentally, in 2002-03, Government released Rs 1318.64 crore to the Corporation for making payment of interest.

Thus, the off-budget borrowings resorted by the Government through Irrigation Development Corporations based on guarantees given by the Government tantamount to debt of the State and as such, should be treated accordingly.

1.10 Management of deficits

➤ *Fiscal Imbalances*

The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health.

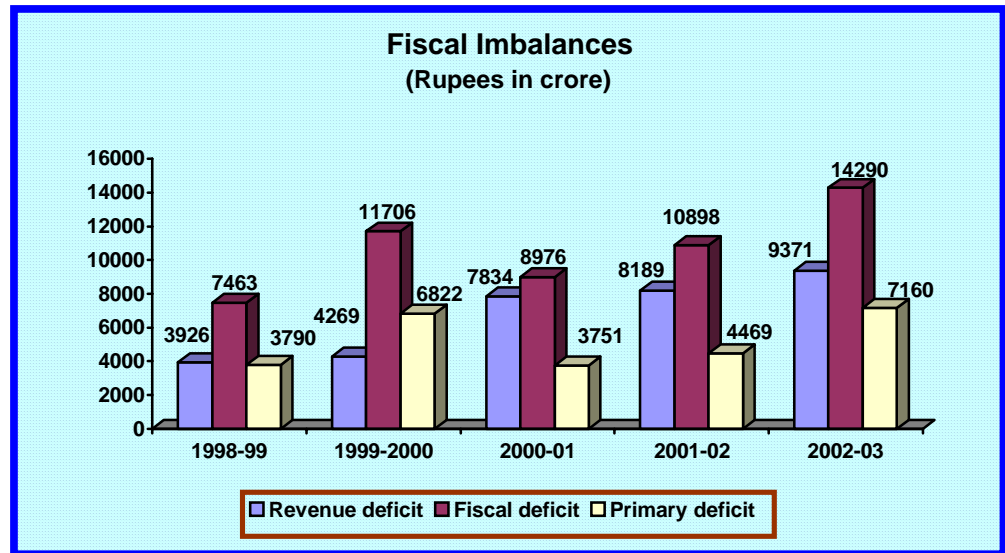
The revenue deficit (Statement 1 of Finance Accounts) of the State which in turn indicates the excess of its revenue expenditure over revenue receipts increased from Rs 3926 crore in 1998-99 to Rs 9371 crore in 2002-03. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs 7463 crore in 1998-99 to Rs 14290 crore in 2002-03. The State also had a primary deficit of Rs 3790 crore in 1998-99 which increased to Rs 7160 crore in 2002-03 as indicated in table-24.

Table-24: Fiscal Imbalances: Basic Parameters

(Value :Rupees in crore and Ratios in *per cent*)

Parameters	1998-99	1999-2000	2000-01	2001-02	2002-03
Revenue deficit	3926	4269	7834	8189	9371
Fiscal deficit	7463	11706	8976	10898	14290
Primary deficit	3790	6822	3751	4469	7160
RD/GSDP	1.64	1.78	3.03	3.02	3.23
FD/GSDP	3.11	4.87	3.48	4.02	4.93
PD/GSDP	1.58	2.84	1.45	1.65	2.47
RD/FD	52.61	36.47	87.28	75.14	65.58

The revenue deficit has steadily increased to all time high of Rs 9371 crore in 2002-03. Even fiscal deficit has nearly doubled from Rs 7463 crore in 1998-99 to Rs 14290 crore in 2002-03. Fast rising revenue and fiscal deficits indicate deteriorating fiscal health of the State, propelling the State to introduce the FRBMB in the Legislature in April 2003.



1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Revenue receipts were increasingly meeting less and less of State's expenditure resulting in increasing dependence on borrowings.

Increasing revenue and fiscal deficit indicates growing fiscal imbalances of the State. Similarly, increase in ratio of revenue deficit and fiscal deficit indicates that the application of borrowed funds has largely been to meet current consumption. All the four indicators of fiscal imbalances show continuous deterioration over the time indicating increasing unsustainability and vulnerability of State finances.

Table-25 below presents a summarised position of Government finances over 1998-2003, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table-25: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Resource Mobilisation						
Revenue Receipt/GSDP	9.07	10.52	11.45	11.09	10.72	10.60
Revenue Buoyancy	0.222	77.439	2.264	0.350	0.486	1.187
Own Tax/GSDP	5.92	7.19	7.64	7.84	7.86	7.33
Expenditure Management						
Total Expenditure/GSDP	12.29	15.50	15.93	15.21	15.81	15.00
Total Expenditure/Revenue Receipts	135.58	147.32	139.13	137.20	147.45	141.34
Revenue Expenditure/ Total Expenditure	87.08	79.35	90.92	92.72	88.25	87.88
Capital Expenditure	11.07	11.29	10.66	7.15	8.34	9.53

Developmental Expenditure	62.34	60.44	63.12	55.60	57.74	59.64
Buoyancy of TE with RR	1.34	1.62	0.62	0.21	3.30	1.16
Buoyancy of RE with RR	1.728	0.929	1.565	1.326	1.706	1.333
Management of Fiscal Imbalances						
Revenue deficit (-)(Rs in crore)	-3926	-4269	-7834	-8189	-9371	-6718
Fiscal deficit (-)(Rs in crore)	-7463	-11706	-8976	-10898	-14290	-10667
Primary Deficit (-)(Rs in crore)	-3790	-6822	-3751	-4469	-7160	-5198
Revenue Deficit/Fiscal Deficit	52.61	36.47	87.28	75.14	65.58	62.98
Management of Fiscal Liabilities						
Fiscal Liabilities/GSDP	17.9	21.6	24.3	27.3	29.6	24.4
Fiscal Liabilities/RR	197.3	205.8	212.5	246.6	275.9	224.1
Buoyancy of FL with RR	3.172	1.307	1.225	10.184	4.654	2.020
Buoyancy of FL with OR	9.275	1.101	1.072	7.400	2.949	1.868
Interest spread	22.08	-10.09	-1.59	-4.29	-2.01	-1.19
Net Fund Available	30.52	22.78	19.51	27.18	25.78	25.18
Other Fiscal Health Indicators						
Return on Investment	0.11	0.06	0.04	0.04	0.01	0.05
Balance from Current Revenue (Rs in crore)	-660	-2186	-5644	-6501	-7101	-4418
Financial Assets/Liabilities	0.93	0.85	0.74	0.67	0.62	0.76

1.12 Conclusions

Large revenue and fiscal deficit year after year indicates continued macro-fiscal imbalances of the State. The continuous application of borrowed funds largely on current consumption and debt servicing indicates increased unsustainability and highlights vulnerability of State finances. It is common for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, ever increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit indicated that the State was gradually getting into a debt trap. Similarly the higher buoyancy of debt both with regard to its revenue receipts and own resource indicated its increasing unsustainability. The State's high cost borrowing for investments, which yields very little return indicated an implicit subsidy. Guarantees extended by the State to various institutions with accumulated losses had the inherent risk of invocation, which the State has to honour. Thus the State has either to generate more revenue from out of its existing assets or need to provide from its current revenue for servicing its debt obligations. Long term fiscal stability can be achieved only through reducing revenue/fiscal deficit by compressing non-developmental revenue expenditure in a medium term framework, prudential debt management and greater transparency in fiscal operations.