CHAPTER I

FINANCES OF THE STATE GOVERNMENT

In Summary

After continued revenue deficit for five years, the State had revenue surplus of Rs.92 crore in 2004-05. The problem of fiscal deficit, however, persists and the State had fiscal deficit for the sixth consecutive year in 2004-05 indicating continued macro imbalances in the State's finances. The fiscal deficit of the State went up from Rs.286 crore in 2003-04 to Rs.448 crore in 2004-05.

Revenue of the State consisted mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs.1045 crore in 2000-01 to Rs.1743 crore in 2004-05 at an average trend rate of 10.46 *per cent*. There were, however, significant inter year variations in the growth rates. During the current year, the revenue receipts grew by 22.75 *per cent.*

The State generated only 8.66 *per cent* of revenue receipts from its own sources comprising taxes and non-taxes and continued to remain dependent on transfers from the Union Government.

Total expenditure of the State increased from Rs.1706 crore in 2003-04 to Rs.2192 crore in 2004-05. The rate of growth of expenditure during the year was 28.49 *per cent* as compared to 8.18 *per cent* in the previous year.

In 2004-05, the share of plan, capital and development expenditures in the total expenditure increased by 10.5 *per cent*, 9.91 *per cent* and 4.21 *per cent* respectively over the previous year. Debt burden (fiscal liabilities) of the State at the end of 2004-05 was Rs.3082 crore, up by 34 *per cent* over the previous year.

High interest rates paid by the Government on its borrowings but low GSDP growth which was negative in 2004-05 resulted in negative interest spread for the last three consecutive years, violating the cardinal rule of debt sustainability.

1.1 Introduction

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

Box 1.1: Lay out of Finance Accounts

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

Statement No.2 contains the summarised statement of capital outlay showing progressive expenditure to the end of the current year.

Statement No.3 exhibits the financial results of irrigation works.

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

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

Statement No.6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory 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 the Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.

Statement No.9 shows the revenue and expenditure under different heads for the current year 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, State plan and Centrally sponsored schemes separately and capital expenditure major head wise.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of the current year.

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 the current year.

Statement No.15 depicts the capital and other expenditure (other than revenue account) to the end of the current year 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 the heads of account relating to debt, Contingency Fund and Public Account.

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

Statement No.18 provides the detailed account of loans and advances given by the Government of Manipur, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.

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

1.2 Trend of Finances with reference to previous year

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

(Rupees in crore)

2003-04	Sl. No.	Major Aggregates	2004-05
1420	1.	Revenue Receipts (2+3+4)	1743
68	2.	Tax Revenue	81
50	3.	Non-Tax Revenue	70
	4.	Other Receipts:	
241		Central Tax Transfer	287
1061		Grants-in-aid	1305
—	5.	Non-Debt Capital Receipts	1
♣	6.	Of which, recovery of Loans and Advances	1
1420	7.	Total Receipts (1+5)	1744
1275	8.	Non-Plan Expenditure (9+11+12)	1397
1259	9.	On Revenue Account	1396
215	10.	Of which, Interest Payments	266
16	11.	On Capital Account	1
—	12.	On Loans disbursed	—
431	13.	Plan Expenditure (14+15+16)	795
205	14.	On Revenue Account	255
224	15.	On Capital Account	520
2	16.	On Loans disbursed	20
1706	17.	Total Expenditure (8+13)	2192
286	**18.**	**Fiscal Deficit (17–1–5)**	**448**
(–) 44	**19.**	**Revenue Deficit (–)/Surplus (+) (1–9–14)**	**(+) 92**
71	**20.**	**Primary Deficit (18–10)**	**182**

♣ Rs.0.48 crore

1.3 Summary of Receipts and Disbursements for the year

Table-I summarises the finances of the State Government of Manipur for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements made during the year as emerging from Statement–1 of the Finance Accounts and other detailed statements.

Table 1: Summary of receipts and disbursements for the year 2004-05

(Rupees in crore)

2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
Section-A: Revenue							
					Non-Plan	Plan	Total
1419.71	**I. Revenue Receipts**	**1742.75**	**1463.47**	**I. Revenue expenditure**	**1396.32**	**254.87**	**1651.19**
68.24	*Tax revenue*	*81.39*	*626.10*	*General Services*	*700.14*	*4.13*	*704.27*
49.33	*Non-tax revenue*	*69.75*	*465.91*	*Social Services*	*383.01*	*140.22*	*523.23*
240.89	*Share of Union Taxes/Duties*	*287.02*	*371.46*	*Economic Services*	*313.17*	*110.52*	*423.69*
1061.25	*Grants from Government of India*	*1304.59*	—	*Grants-in-aid/ Contributions*	—		—
Section-B: Capital							
—	**II. Miscellaneous Capital Receipts**		**240.39**	**II. Capital Outlay**	**0.66**	**520.52**	**521.18**
0.48	**III. Recoveries of Loans and Advances**	**0.58**	**1.96**	**III. Loans and Advances disbursed**	—	**20.27**	**20.27**
876.61	**IV. Public debt receipts***	**1110.19**	**787.97**	**IV. Repayment of Public Debt**			**456.59**
—	**V. Contingency Fund**	—	—	**V. Contingency Fund**	—	—	—
745.71	**VI. Public account receipts**	**1107.96**	**736.80**	**VI. Public Account disbursements**			**1028.67**
(–) 327.58	Opening Balance	(-) 515.66	(–) 515.66	Closing Balance			(-) 232.08
2714.93	**Total**	**3445.82**	**2714.93**	**Total**			**3445.82**

* Excludes net ways and means advances and overdraft.

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 statements of the Finance Accounts for the year 2004-05 and wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities, and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The 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 published by the Bureau of Economics and Statistics Department of the State Government have been used as a base.

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 2000-05 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in *Appendix–I*.

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

Consolidated Fund	Contingency Fund	Public Account
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 titled 'The Consolidated Fund of State' established under Article 266 (1) of the Constitution of India.	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.	Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, *etc.* are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266 (2) of the Constitution and the related disbursements are made from it.

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 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 2004-05 were Rs.3,961.48 crore. Of these, the revenue receipts of the State Government were Rs.1,742.75 crore only, constituting 43.99 *per cent* of the total receipts. The balance of receipts came from borrowings and public account receipts.

Table 2 – Resources of Manipur

(Rupees in crore)

I.	**Revenue Receipts**	**1742.75**
II.	**Capital Receipts**	**1110.77**
	(a) Miscellaneous Receipts	—
	(b) Recovery of Loans and Advances	*0.58*
	*(c) Public Debt Receipts**	*1110.19*
III.	**Contingency Fund Receipts**	**—**
IV.	**Public Account Receipts**	**1107.96**
	(a) Small Savings, Provident Fund, etc.	*164.95*
	(b) Reserve Fund	*7.40*
	(c) Deposits and Advances	*136.31*
	(d) Suspense and Miscellaneous	*202.95*
	(e) Remittances	*596.35*
	Total Receipts	**3961.48**

The source of total receipts under different heads and GSDP during 2000-05 is indicated in Table 3.

Table 3– Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product
		Non-Debt Receipts**	Debt-Receipts	Accruals in Public Account		
2000-01	1045	0.52	417	963	2426	3159
2001-02	1177	0.47	655	127	1959	3591
2002-03	1328	0.47	1104	699	3131	3740
2003-04	1420	0.48	877	746	3043	4062
2004-05	1743	0.58	1110	1108	3962	4024

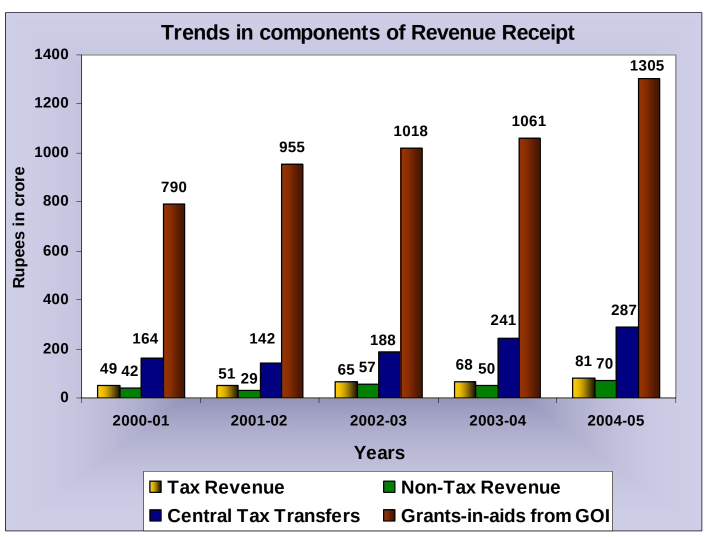
1.5.2 Revenue Receipts: Statement No.11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts of the State consist mainly of its own tax and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy are indicated in Table 4.

* Excludes ways and means advances and overdrafts.
** This column indicates recovery of loans and advances.

Table 4: Revenue Receipts – Basic Parameters (Values in Rupees crore and others in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Receipts	1045.00	1177.00	1328.00	1420.00	1743.00	1343.00
Own Taxes	4.69	4.33	4.89	4.79	4.66	4.68
Non-Tax Revenue	4.02	2.46	4.29	3.52	4.02	3.69
Central Tax Transfers	15.69	12.06	14.16	16.97	16.47	15.22
Grants-in-aid	75.60	81.14	76.66	74.72	74.87	76.40
Revenue Receipts/GSDP	33.08	32.78	35.51	34.96	43.32	36.14
Rate of Growth of Revenue receipts	(–) 2.34	12.63	12.83	6.93	22.75	10.46
Rate of Growth of Own Tax Revenue	22.50	4.08	27.45	4.62	19.12	14.55
GSDP Growth	15.292	13.675	4.149	8.61	(-) 0.935	8.071
Overall Revenue Buoyancy	**	0.924	3.092	0.805	#	1.295
Own Taxes buoyancy	1.471	0.298	6.616	0.537	#	1.803

The revenue receipts of the State increased from Rs.1,045 crore in 2000-01 to Rs.1,743 crore in 2004-05 at an average trend rate of 10.46 *per cent*. The revenue from own taxes registered a growth rate of 14.55 *per cent* during the period. There were, however, significant inter-year variations in the growth rates. During the five-year period 2000-05, the State had a buoyant economy with its GSDP growth averaging 8 *per cent*. Revenue growth and the rate of growth of own tax revenue were higher than GSDP growth rate and, therefore, average buoyancy of revenue receipt and average revenue buoyancy of own taxes during the period were greater than one.



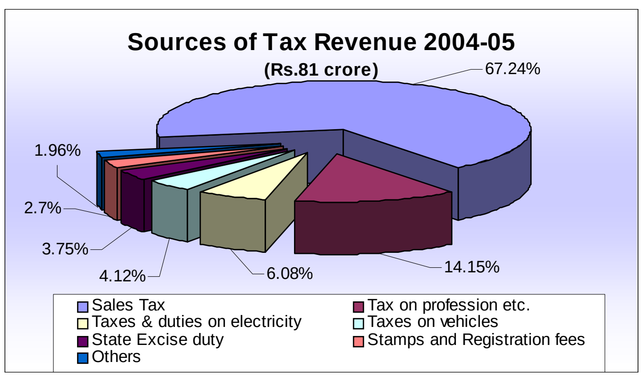
The increase in revenue receipts during the last five years was mainly due to significant increase in grants-in-aid from Government of India from Rs.790 crore in 2000-2001 to Rs.1,305 crore in 2004-05 and Central tax transfers increasing from Rs.164 crore to Rs.287 crore during the above period. The tax revenue also increased from Rs.49 crore to Rs.81 crore and non-tax revenue from Rs.42 crore to Rs.70 crore during the last five years.

The State finances are mostly dependent on Central tax transfers and grants-in-aid from the Government of India. While only 8.66 *per cent* of the revenue receipts during 2004-05 came from the State's own resources comprising taxes

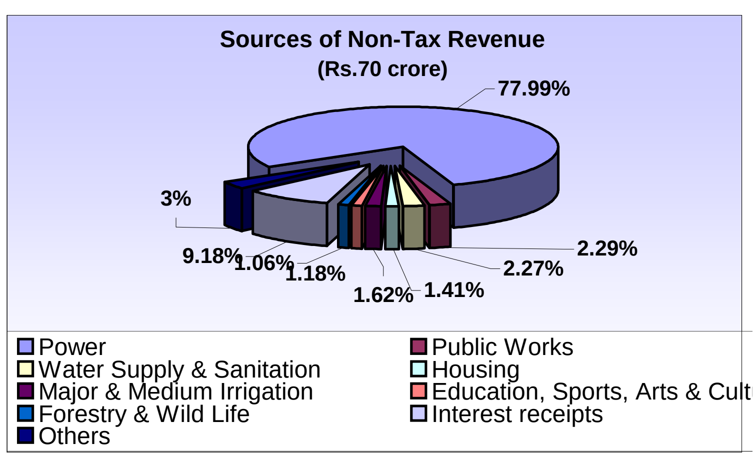
** Rate of Growth of Revenue Receipts was negative.
# Rate of GSDP growth was negative.

and non-taxes, Central tax transfers and grants-in-aid together contributed 91.34 *per cent* of the total revenue. Compared to 2000-01, the contribution of the State's own tax and non-tax revenues in its total revenue receipts decreased slightly from 8.71 *per cent* to 8.66 *per cent* in 2004-05. Contribution of Central tax transfers increased from 15.69 *per cent* of the total revenue receipts in 2000-01 to 16.49 *per cent* in 2004-05 while contribution of grants-in-aid from Government of India decreased from 75.59 *per cent* to 74.87 *per cent* during this period.

During the current year, the revenue receipts grew by 22.75 *per cent* over the previous year against the increase of 27.96 *per cent* in the State's own tax and non-tax revenue. The increase in revenue receipts during the year was mainly on account of 19.09 *per cent* increase in Central tax transfers and 23 *per cent* hike in grants-in-aid from Government of India over the previous year.



Sales Tax was the major contributor (67.24 *per cent*) of the State's own tax revenue followed by taxes on Professions, Trades, Callings and Employment (14.15 *per cent*), taxes and duties on electricity (6.08 *per cent*) taxes on vehicles (4.12 *per cent*), State Excise (3.75 *per cent*), Stamps and Registration fees (2.70 *per cent*) *etc*. Overall own tax–GSDP ratio at 2.01 *per cent* in 2004-05 was very low. Low compliance in filing tax returns and weak internal controls in the departments are some of the reasons for insignificant contribution of own taxes to the total revenue receipts of the State.



The non-tax revenue of the State was Rs.70 crore in 2004-05 as compared to Rs.50 crore in the previous year. Of non-tax revenue sources, receipts from Power (77.99 *per cent*), Public works (2.29 *per cent*), Water Supply and Sanitation (2.27 *per cent*), Housing (1.41 *per cent*), Major and medium Irrigation (1.62 *per cent*), Education, Sports, Arts and Culture

(1.18 *per cent*), Forestry and Wild Life (1.06 *per cent*) and interest receipts (9.18 *per cent*) were principal contributors.

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government were 0.21 *per cent* for secondary education, 0.51 *per cent* for university and higher education, 0.09 *per cent* for technical education, 0.46 *per cent* for medical and public health and 6.44 *per cent* for water supply and sanitation.

1.6 Application of resources

1.6.1 Trend of growth: Statement No.12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased consistently from Rs.1,272 crore in 2000-01 to Rs.2,192 crore in 2004-05.

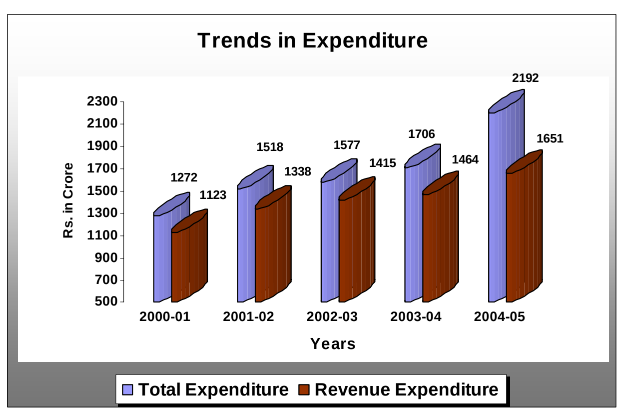
Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table 5 below:

Table 5: Total Expenditure – Basic Parameters
(value in Rs. crore and others in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average/ Trend
Total Expenditure	1272.00	1518.00	1577.00	1706.00	2192	1653
Rate of Growth	(–) 25.80	19.37	3.88	8.18	28.49	6.33
TE/GSDP Ratio	40.26	42.28	42.17	42.00	54.47	44.49
Revenue Receipts/ TE Ratio	82.17	77.53	84.21	83.24	79.52	81.22
Buoyancy of Total Expenditure with						
GSDP	*	1.416	0.934	0.950	#	0.785
Revenue Receipts	**	1.533	0.302	1.181	1.252	0.606

Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans & Advances.

The trend rate of growth of expenditure during the current year was 28.49 *per cent* as compared to 8.18 *per cent* in the previous year indicating a sharp increase in the total expenditure of the State Government in 2004-05. The ratio of revenue receipt to total



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* Rate of growth of Revenue expenditure was negative.
** Rate of growth of Revenue expenditure and revenue receipts were negative.
# Rate of growth of GSDP was negative.

expenditure decreased slightly from 82.17 *per cent* in 2000-01 to 79.25 *per cent* in 2004-05. The ratio of total expenditure to GSDP hovered around 40 to 42 *per cent* during 2000-04 but increased drastically to 54.47 *per cent* in 2004-05. This was due to sharp increase in total expenditure in 2004-05 and slight decline in GSDP during the year.

The increase in total expenditure in 2004-05 was largely due to increase in expenditure on Social services by 38.72 *per cent*, Economic services by 33.05 *per cent* and General services by 13.08 *per cent*.

1.6.2 In terms of the activities, total expenditure could be considered as being composed of expenditure on General services, interest payments, Social and Economic services, grants-in-aid and other contributions to institutions, and loans and advances. Relative share of these components in total expenditure is indicated in Table 6.

Table 6: Components of Expenditure – Relative share (in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
General Services⊕	26.73	24.70	25.43	24.62	20.62	24.05
Interest Payments	13.92	12.58	16.17	12.60	12.14	13.36
Social Services	34.44	32.87	33.99	33.00	35.63	34.08
Economic Services	24.85	29.58	24.35	29.66	30.70	28.17
Loans and Advances	0.06	0.27	0.06	0.12	0.91	0.12

Expenditure on General services and interest payments which are considered as non-developmental, together accounted for 32.75 *per cent* in 2004-05 as against 40.65 *per cent* in 2000-01. In the current year, the non-developmental expenditure decreased by 4.47 *per cent* over last year.

On the other hand, developmental expenditure *i.e.*, on Social and Economic services together accounted for 66.33 *per cent* in 2004-05 as against 59.29 *per cent* in 2000-01. This indicated some improvement in priority for developmental expenditure.

1.6.3 Incidence of Revenue expenditure: In the total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table 7.

⊕ Excluding interest payments.

Table 7: Revenue Expenditure – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Expenditure (Rupees in crore)	1123	1338	1415	1464	1651	1398
Rate of Growth (*per cent*)	(–) 16.69	19.15	5.75	3.46	12.77	5.47
RE/GSDP	35.55	37.26	37.83	36.04	41.03	37.63
RE as percentage of TE	88.30	88.13	89.70	85.81	75.32	84.59
RE as percentage of RR	107.46	113.68	106.55	103.10	94.72	104.14
Buoyancy of Revenue Expenditure with						
GSDP	*	1.400	1.387	0.402	#	0.678
Revenue Receipts	**	1.516	0.449	0.500	0.562	0.524

Overall revenue expenditure of the State increased at an average trend growth of 5.47 *per cent*. As a result, revenue expenditure – GSDP ratio moved up from 35.55 *per cent* in 2000-01 to 41.03 *per cent* in 2004-05. On an average 84.59 *per cent* of the total expenditure was on current consumption during the last five years.

There was sizeable increase in the revenue expenditure in 2004-05 registering a growth of 12.77 *per cent* as compared to only 3.46 *per cent* in the previous year.

(i) Expenditure on pension payments: Between 10 to 13 *per cent* of the total revenue receipts was spent for meeting liabilities for pension payments during the last five years. Expenditure on Pension payments increased from Rs.127 crore in 2000-01 to Rs.182 crore in 2004-05. Year-wise break-up of expenditure incurred on pension payments during the years 2000-01 to 2004-05 was as under:

Table 8

(Rupees in crore)

Year	Expenditure on pension payments	Pension payments as percentage of Revenue expenditure	Pension payments as percentage of Revenue receipts
2000-01	127	11.31	12.15
2001-02	140	10.46	11.89
2002-03	167	11.80	12.57
2003-04	166	11.33	11.60
2004-05	182	11.02	10.44

Government of Manipur has adopted a new restructured Defined Contribution Pension Scheme in respect of new entrants with effect from 1st January 2005. Under the scheme, new entrants will have to contribute 10 *per cent* of the salary and DA towards Defined Contribution Pension Scheme with matching contribution being provided by the Government of Manipur. Such employees will not be entitled to pension/family pension under the existing pension rules. The new scheme is intended to reduce pension liabilities of the State

\# Rate of growth of GSDP was negative.

* Rate of growth of Revenue expenditure was negative.

** Rate of growth of Revenue expenditure and revenue receipts were negative.

Government in the long run but may lead to increase in expenditure in initial years on account of matching contributions to be provided by the Government for new entrants in addition to making pension payments to the existing pensioners.

(ii) ***Interest payment:*** The Eleventh Finance Commission (August 2000) had recommended that as a medium term objective, States should endeavour to keep interest payment, as a ratio to revenue receipts at 18 *per cent.* Interest payments in Manipur were within the above limits during the last five years except for the year 2002-03 as shown below:

Table 9

Year	Interest payments (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue expenditure
2000-01	177	16.94	15.76
2001-02	191	16.22	14.27
2002-03	255	19.20	18.02
2003-04	215	15.14	14.69
2004-05	266	15.26	16.11

Interest payments increased steadily from Rs.177 crore in 2000-01 to Rs.266 crore in 2004-05 at an average growth rate of 13.32 *per cent* primarily due to ever increasing borrowings. Thus, the State spent about 15 to 19 *per cent* of its revenue receipts for meeting its liabilities towards interest payments during the last five years.

In comparison to the previous year, however, the interest payments went up by Rs.51 crore due to higher interest payment on market loans and special securities issued to National Small Savings Fund. The interest payment of Rs.266 crore during 2004-05 was on Internal Debt (Rs.121.49 crore), loans and advances from Central Government (Rs.109.04 crore) and Small Savings, Provident Fund *etc*. (Rs.35.90 crore).

1.7 Expenditure by Allocative priorities

The expenditure of the State in the nature of plan expenditure, capital expenditure and development expenditure reflects its quality. The higher the ratio of these components to total expenditure, better is the quality of expenditure. Table 10 gives these ratios during 2000-05 as follows:

Table 10: Quality of Expenditure (*per cent* to total expenditure)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Plan Expenditure	26.20	24.83	19.04	25.18	35.68	26.87
Capital Expenditure	11.64	11.62	10.22	14.08	23.99	15.13
Developmental Expenditure	59.32	62.62	58.38	62.73	66.94	62.46

(Note: Total expenditure does not include Loans and Advances)

All the three components of quality of expenditure indicated relative improvements during 2000-05. In the year 2004-05, share of the plan as well as capital expenditure in the total expenditure has considerably gone up as compared to 2000-01. The share of developmental expenditure in total expenditure in 2004-05 was 8 *per cent* higher than its share in 2000-01.

In the current year 2004-05, the share of plan, capital and developmental expenditures in the total expenditure increased by 10.5 *per cent*, 9.91 *per cent* and 4.21 *per cent* respectively over the previous year indicating improvement in the allocative priorities.

Out of the developmental expenditure of Rs.1,454 crore during the year 2004-05, social services accounted for 53.71 *per cent* (Rs.781 crore). Expenditure on General Education, Health, Medical and Family Welfare, Water Supply and Sanitation constituted 64.10 *per cent* of the expenditure on Social sector as shown in the table below:

Table 11: Social Sector Expenditure

(Rupees in crore)

	2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**
General Education	265.29	274.45	268.47	283.73	317.03
Health, Medical and Family Welfare	66.61	72.20	62.37	74.20	66.67
Water Supply and Sanitation	35.53	46.52	96.99	65.12	116.95
Total	**367.43**	**393.17**	**427.83**	**423.05**	**500.65**
As a percentage of expenditure on Social sector	83.87	78.87	79.79	75.12	64.10

To assess the impact of Government policies and outlays incurred on various services benefiting the people, one service (Veterinary and Animal Husbandry including Dairy Development) from the social sector was selected by Audit to evaluate its performance in terms of achievement of objectives. Audit findings in this regard are contained in Paragraph 3.3 of this Report. It was seen that despite incurring substantial outlays on the service, the outcome was negligible.

Similarly, the expenditure on Economic Services (Rs.673 crore) accounted for 46.29 *per cent* of the development expenditure in the year 2004-05. Of which, Irrigation and Flood Control, Energy and Transport accounted for 53.07 *per cent*.

Table 12: Economic Sector Expenditure

(Rupees in crore)

	2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**
Irrigation and Flood Control	43.38	64.95	52.48	67.60	73.50
Energy	97.91	120.90	103.00	130.73	165.70
Transport	40.94	50.25	72.05	76.70	117.97
Total	**182.23**	**236.10**	**227.53**	**275.03**	**357.17**
As a percentage of expenditure on Economic sector	57.64	52.67	59.28	54.42	53.07

1.7.1 Financial assistance to Local Bodies and other Institutions

(i) Extent of assistance: The quantum of assistance (Rs.197.45 crore) provided by way of grants (Rs.171.30 crore) and loans (Rs.26.15 crore) to different local bodies *etc*., during the period of 5 years ending 2004-05 was as follows:

Table 13

(Rs. In crore)

		2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**Total**
Universities and Educational institutions	Grant	21.72	30.45	34.10	28.90	45.19	160.30
	Loan	—	—	—	—	—	—
Municipal Corporations/ Municipalities	Grant	0.59	2.45	0.64	1.54	2.12	7.34
	Loan	—	—	—	—	—	—
Cooperative Societies and other Cooperative Institutions	Grant	0.12	0.94	0.16	0.28	0.09	1.59
	Loan	0.06	3.26	—	1.70	—	5.02
Other institutions	Grant	0.14	0.24	0.53	0.41	0.69	2.01
	Loan	—	—	0.81	0.05	20.27	21.13
Total	Grant	**22.57**	**34.08**	**35.43**	**31.13**	**48.09**	**171.30**
	Loan	**0.06**	**3.26**	**0.81**	**1.75**	**20.27**	**26.15**
Grand Total		**22.63**	**37.34**	**36.24**	**32.88**	**68.36**	**197.45**
Percentage of increase(+)/ decrease(-) over previous year		(–) 22.28	65.00	(–) 2.95	(–) 9.27	107.90	
Assistance as a percentage of revenue expenditure		2	3	3	2.24	4.14	

The total assistance at the end of 2004-05 had grown three times over the level of 2000-01. The assistance to local bodies and other authorities increased substantially from Rs.32.88 crore in 2003-04 to Rs.68.36 crore in 2004-05 due to increase of grants to Universities and Educational Institutions and increased loans to other institutions. The assistance to local bodies as a percentage of total revenue expenditure had increased from two to four *per cent* during 2000-05.

(ii) Delay in furnishing Utilisation Certificates: Financial rules of Government require that where grants are given for specific purposes, certificates of utilisation are to be obtained by the departmental officers from the grantees and after verification these should be forwarded to the Accountant General within one year from the date of sanction unless specified otherwise. Information on grants released and funds utilised was not furnished by the State Government/ departments though called for in August and October 2005.

(iii) Delay in submission of accounts: In order to identify the institutions which attract audit under Section 14 and 15 of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971, Government/ Heads of Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose for which assistance was sanctioned and the total expenditure of the institutions. Information for the year 2004-05 called for in September 2005 had not been furnished by the departments/Government (November 2005).

Accounts of 13 institutions/bodies (receiving grants of more than Rs.25 lakh continuously from the State Government and others) attracting audit under Section 14 of the Act, *ibid*, were in arrears as on 31 March 2005. The details of such bodies/authorities are given in *Appendix–II.*

The audit of accounts of the Manipur State Legal Service Authority required to be audited under Section 19 (2) of the Comptroller and Auditor General's (DPC) Act, 1971, could not be conducted for the last three years (2002-03, 2003-04 and 2004-05) due to non-receipt of the accounts.

Position of arrears in submission of accounts by the Autonomous District Councils audited under Section 19 (3) of the Act, is discussed in Paragraph 4.17 of this Report.

1.8 Assets and liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings *etc*., owned by the Government is not done. However, the Government accounts do capture financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. *Appendix–III* gives an abstract of such liabilities and the assets as on 31 March 2005 compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, accumulated balances 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. *Appendix–III* shows that while the liabilities grew by 17.60 *per cent*, the assets increased only by 16.89 *per cent* reducing the assets liabilities ratio from 1.22 in 2003-04 to 1.21 in 2004-05. The liabilities of Government of Manipur depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to retiring State employees. An abstract of receipts and disbursements of the Government of Manipur for the year 2004-05 is given in *Appendix–IV*. *Appendix–V* exhibits sources and application of funds and *Appendix–VI* depicts the Time series data on State Government Finances for the period 2000-05.

1.8.1 Incomplete projects

The State has two major and one medium incomplete project and the expenditure incurred on these projects as of March 2005 was Rs.457.75 crore (details are given in *Appendix–VII*). While no benefits have accrued so far from Khuga and Dolaithabi Irrigation Projects, some partial benefits have been derived from Thoubal Irrigation project which has fallen far behind its original scheduled date of completion. The Government could not provide details of various incomplete projects in the State as of 31 March 2005 and the capital involved in such projects. This showed that no effective monitoring was carried out at the apex level in the Government to oversee progress of completion of these incomplete projects.

1.8.2 Investments and returns: As on 31 March 2005, Government had invested Rs.162 crore in its Statutory Corporations, Government companies and Co-operative Institutions. Government's average return on this investment was 0.04 *per cent* in the last five years. With an average interest rate of 9.83 *per cent* being paid by the Government on its borrowings, the average annual subsidy amounted to 9.79 *per cent* and the implicit subsidy during the period 2000-05 was Rs.60.81 crore at an average annual rate of Rs.12.16 crore per year.

Table 14: Return on Investment

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Investment at the end of the year (Rs. in crore)	91	108	115	144	162	124.00
Returns (Rs. in crore)	—	0.08	—	0.08	0.08	0.05
Percentage of returns	—	0.07	—	0.06	0.05	0.04
Average interest rate paid by Government	9.34	8.90	11.53	9.50	9.88	9.83
Difference between interest rates and return (in *per cent)*	9.34	8.82	11.53	9.44	9.83	9.79
Implicit subsidy (Rupees in crore)	8.50	9.53	13.26	13.60	15.92	12.16

1.8.3 Loans and advances by the State Government: In addition to investments in Co-operatives, Corporations and Companies, Government has also been providing support in terms of loans and advances to many of these parastatals. Total outstanding balance as on 31 March 2005 was Rs.77 crore. Interest received on such loans had varied from 0.13 *per cent* to 0.26 *per cent* during 2000-05 (Table 15). Total implicit subsidy during 2000-05 on such loans was Rs.25.65 crore.

Table 15: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Opening Balance	50.99	51.29	54.96	56.04	57.52	54.20
Amount advanced during the year	0.82	4.14	1.55	1.96	20.27	5.70
Amount repaid during the year	0.52	0.47	0.47	0.48	0.58	0.59
Closing Balance	51.29	54.96	56.04	57.52	77.21	59.40
Net Addition	0.30	3.67	1.08	1.48	19.69	5.11
Interest Received	0.13	0.22	0.26	0.19	0.26	0.21
Average interest rate	0.25	0.41	0.47	0.33	0.39	0.37
Average interest paid by the State (*per cent*)	9.34	8.90	11.53	9.50	9.88	9.83
Difference between interest paid and received (*per cent*)	9.08	8.49	11.06	9.17	9.49	9.46
Implicit subsidy	4.63	4.35	6.08	5.13	5.50	5.13

***1.8.4 Management of cash balances*:** It is generally desirable that a State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Reserve Bank of India has been put in place.

The State continued to face serious problem of cash management during the last five years (2000-05). Ways and Means Advances facilities were used for 35 days during 2004-05 as against 45 days in 2000-01. As regards overdraft, the State Government has used this facility for 119 days in 2004-05 as against 108 days to 212 days during 2000-04. The amount of overdraft taken during 2004-05 (Rs.50.31 crore) was substantially lower than the overdraft of Rs.982.08 crore obtained by the Government in 2000-01. There was no overdraft outstanding at the end of the year 2004-05.

Table 16: Ways and means and overdrafts of the State and Interest paid thereon

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Ways and Means Advances						
Taken in the year	209.03	70.31	101.54	247.07	191.24	163.84
Outstanding	41.83	42.40	55.70	55.31	54.83	150.01
Interest Paid	2.03	2.82	3.28	2.99	1.22	2.47
Number of Days	45	—	—	48	35	26
Overdraft						
Taken in the year	982.08	1486.13	1227.45	215.20	50.31	792.23
Outstanding	400.50	497.86	49.75	49.75	Nil	199.57
Interest Paid	5.73	9.12	18.63	1.71	9.16	8.87
Number of Days	108	142	135	212	119	143

1.8.5 Undischarged liabilities

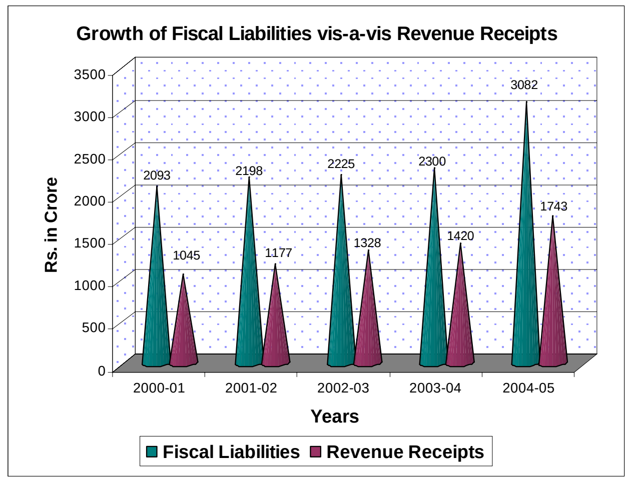
(i) Fiscal liabilities – Public debt and guarantees**:** The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. Table 17 below gives the 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 17: Fiscal Liabilities – Basic Parameters (Value in Rupees in crore and ratios in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Fiscal Liabilities$	2093	2198	2225	2300	3082	2380
Rate of Growth	23.19	5.02	1.23	3.37	34.00	9.80
Ratio of Fiscal Liabilities to						
GSDP	66.26	61.21	59.49	56.62	76.59	64.05
Revenue Receipt	200.29	186.75	167.55	161.97	176.82	177.24
Own Resources	2300.00	2747.50	1823.77	1949.15	2041.06	2117.08
Buoyancy of Fiscal Liabilities to						
GSDP	1.516	0.367	0.296	0.392	#	1.215
Revenue Receipt	*	0.397	0.096	0.487	1.495	0.938
Own Resources	2.406	*	0.023	*	1.216	0.770

$ Includes Internal Debt, Loans and Advances from GOI and other obligations.

* Revenue Receipts and Own Resources had a negative growth.
# Rate of growth of GSDP was negative.



After a slow growth of fiscal liabilities during the three years period of 2001-04 at the rate of 3 to 5 *per cent* per year, the fiscal liabilities of the State increased considerably by 34 *per cent* in 2004-05 as compared to the previous year.

Overall fiscal liabilities of the State increased from Rs.2,093 crore in 2000-01 to Rs.3,082 crore in 2004-05 on an average rate of 9.80 *per cent* during 2000-05. The ratio of these liabilities to GSDP went up from 66.26 *per cent* in 2000-01 to 76.59 *per cent* in 2004-05. The State's fiscal liabilities stood at 1.77 times its revenue receipts and 20.41 times its own resources.

In addition to these liabilities, Government had guaranteed loans raised by various Corporations and others, which at the end of 2003-04 stood at Rs.22 crore. The guarantees are in the nature of contingent liabilities, and the fiscal liabilities together with the contingent liabilities currently exceed 1.78 times the Revenue receipts of the State in 2003-04. Information in respect of guaranteed loans for 2004-05 could not be provided by the Finance Department.

Sustainability of fiscal liabilities is examined in a variety of ways. One of the criteria of fiscal sustainability is the existence of a positive spread between rate of growth of GSDP and the average interest rate. In the case of Manipur, increasing interest rates compared to GSDP growth has resulted in negative interest spread in three out of the last five years (Table 18). The negative interest spread was as high as 10.82 *per cent* in 2004-05 against the positive interest spread of 5.96 *per cent* in 2000-01. This was due to continuous decline in GSDP growth rate during last five years from 15.29 *per cent* in 2000-01 to (-) 0.94 *per cent* in 2004-05.

Table 18: Debt Sustainability-Interest Rate and GSDP Growth (in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average/ Trend
Weighted Interest Rate	9.34	8.90	11.53	9.50	9.88	9.83
GSDP Growth	15.29	13.68	4.15	8.61	(-) 0.94	8.07
Interest spread	5.96	4.77	(–) 7.38	(–) 0.89	(-) 10.82	(-) 1.76

Another important indicator of the debt sustainability is the net availability of the borrowed funds after payment of principal and interest. Table 19 below gives the position of receipt and re-payment of internal debt and other fiscal liabilities of the State over the last five years.

In three out of the last five years, repayments exceeded receipts from internal debt and other fiscal liabilities and therefore, no funds were available from borrowings, indicating non-sustainability of debt of the State Government during these years (2001-04). The position, however, comparatively improved in 2004-05 and the net funds available from the total receipts on account of public debt, loans and advances from Government of India and other debt receipts (including public account) after repayments increased to 31.18 *per cent* of the borrowed funds.

Table 19 : Net Availability of Borrowed Funds (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Internal debt						
Receipt	1234	1609	1408	812	325	1077.60
Repayment (Principal + Interest)	1145	1537	1851	706	437	1135.20
Net Fund Available	89	72	(–) 443	106	(-) 112	(-) 57.60
Net Fund Available (*per cent*)	7.21	4.47	(–) 31.46	13.05	(-) 34.46	(-) 8.24
Loans and Advances from Government of India						
Receipt	237	504	1025	527	1027	664.00
Repayment (Principal + Interest)	136	663	703	724	491	543.40
Net Fund Available	101	(–) 159	322	(–) 197	536	120.60
Net Fund Available (*per cent*)	42.62	(–) 31.55	31.41	(–) 37.38	52.19	11.46
Other obligations						
Receipt	199	189	145	155	303	198.20
Repayment (Principal + Interest)	172	189	252	205	211	205.80
Total liabilities						
Receipt	1670	2302	2578	1494	1655	1939.80
Payments	1453	2389	2806	1635	1139	1884.40
Net receipts	217	(–) 87	(–) 228	(–) 141	516	55.40
Net Funds Available (*per cent*)	12.99	(–) 3.78	(–) 8.84	(–) 9.44	31.18	4.42

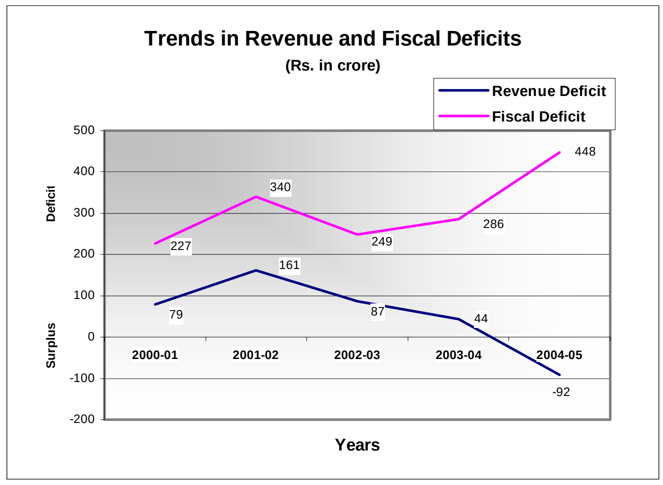
(ii) Off budget borrowings: The Constitution of India permits State Governments to borrow from the Open Market, Financial Institutions and Government of India, upon the security of the Consolidated Fund, within such limits, if any, as may from time to time be fixed by an Act of Legislature of the State. Government of Manipur raised off budget borrowings of Rs.30 crore in 1998-99 from HUDCO for construction of Khuman Lampak Sports Complex. No off budget borrowings have been made during 1999-2000 to 2004-05.

1.9 Management of deficits

***1.9.1 Fiscal imbalances*:** The deficit in Government accounts represents the gap between its receipts and expenditure. The quantum of the 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 of the State which indicates the excess of its revenue expenditure over revenue receipts, decreased from Rs.79 crore in 2000-01 to a revenue surplus of Rs.92 crore in 2004-05 (Table 20).

After revenue deficit for five consecutive years from 1999-2000 to 2003-04, the State had revenue surplus in 2004-05. The existence of revenue deficit indicated that the revenue receipt of the State Government was not able to meet its revenue expenditure and the Government had to borrow funds to meet its current obligations. It also indicated that the asset base of the State Government was continuously shrinking till 2003-04.



The Power Sector is the major source of non-tax revenue for the State Government and had been contributing towards increased revenue deficit of the State. Revenue deficit for the power sector during 2004-05 stood at Rs.77 crore. Hence, excluding the Power Sector, the State had a much higher revenue surplus of Rs.168.56 crore in 2004-05. The details of revenue deficit of the power sector and the revenue surplus of the State as a whole are given in *Appendix–VIII*.

The fiscal deficit, which represents the need for additional resources of the Government and its total resource gap, increased consistently from Rs.227 crore in 2000-01 to Rs.488 crore in 2004-05. The ratio of fiscal deficit to GSDP increased from 7.19 *per cent* in 2000-01 to 11.13 *per cent* in 2004-05.

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

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Deficit (–)/ Surplus(+)	(–) 79	(–) 161	(–) 87	(–) 44	(+) 92	(-) 56
Fiscal Deficit	(–) 227	(–) 340	(–) 249	(–) 286	(-) 448	(-) 310
Primary Deficit	(–) 50	(–) 149	6	(–) 71	(-) 182	(-) 89
RD/GSDP	(–) 2.50	(–) 4.48	(–) 2.33	(–) 1.08	*	(-) 1.50
FD/GSDP	(–) 7.19	(–) 9.47	(–) 6.66	(–) 7.04	(-) 11.13	(-) 8.34
PD/GSDP	(–) 1.58	(–) 4.15	0.16	(–) 1.75	(-) 4.52	(-) 2.40
RD/FD	34.80	47.35	34.94	15.38	*	18.00
PD/FD	22.03	43.82	**	24.83	40.63	32.82

(Negative figures indicate deficit and positive indicates surplus)
* There was a revenue surplus during the year.
** There was a primary surplus during the year.

Primary deficit is the fiscal deficit minus interest payments. This means that the less the value of the ratio (PD/FD), the less the availability of funds for capital investment. In Manipur the ratio has been in the range of 22 *per cent* to 44 *per cent* during the last five years. This suggests that funds available for capital investment after meeting interest obligations were small during these years.

1.10 Fiscal reforms programmes

1.10.1 The State Government submitted a Medium Term Fiscal Restructuring Policy (MTFRP) 2000-05 to Government of India in compliance with the recommendation of the Eleventh Finance Commission. Thereafter a Memorandum of Understanding (MOU) based on the fiscal situation of the State was signed between the Government of India and the State on 20 June 2002. Accordingly, the State Government is required to take specific and discernible measures and implement them in a structured and time bound manner to correct the fiscal imbalance in a medium term perspective.

The main objectives of the MOU were to:

(i) compress revenue expenditure,

(ii) enhance revenue and non-debt capital receipts to control debt levels, and

(iii) increase overall transparency and efficiency in governance.

Finance Department, Government of Manipur is responsible for implementation of the reform programme. The information furnished by the Finance Department (February 2005) on the progress of implementation of the commitments revealed the following shortcomings:

1.10.2 Revenue Expenditure Compression

(i) The Government was to monitor steadfastly its decision (July 2001) to abolish 14,385 posts (Regular Establishment: 9,385 Work Charged Establishment: 5,000). The Finance Department identified 13,132 posts of which orders for abolition of 12,012 posts (including 4,666 vacant posts) had been issued as on 31 May 2003. The Government is yet to identify/abolish remaining posts (February 2005).

(ii) The Government was to maintain a comprehensive nominal roll of State Government employees/employees of Government owned or funded organisations by 30 September 2002. Finance Department stated (February 2005) that the task of computerisation of nominal rolls entrusted to NIC had been completed but that cross-checking of entries was yet to be done.

(iii) The Government was to evolve an appropriate Voluntary Retirement Scheme (VRS) for Government employees during 2002-03, but the same was yet to be evolved (February 2005).

(iv) The Government was to issue specific orders by 30 September 2002 for no fresh grant-in-aid commitments to any institution. Though no fresh commitments were given by Government during 2003-04, specific orders were yet to be issued (February 2005).

(v) A legislative cap was to be introduced by 30 September 2002 on the amount of guarantee to be provided by the State Government for loans to be taken by other entities sponsored by the State Government and to exclude totally the private sector from being extended guarantee on their borrowings. The Legislature enacted the required Act only in January 2005.

1.10.3 Revenue Receipt Enhancement

As regards commitments made in the MOU on revenue enhancing measures, like revision of taxes and user charges, explore the possibility of lifting prohibition and a cap on announcing new tax concessions, the Government revised the rates of land revenue, hill house tax and drinking water supply during 2002-03. The Finance Department intimated (February 2005) that Government was revising their rates of user charges from time to time.

1.10.4 Fiscal correction path

The Commissioner (Finance), Government of Manipur informed (December 2005) that a fiscal correction path has been prepared by the State Government in the light of the 12th Finance Commission Awards. The fiscal correction path giving current fiscal position and the projected position for the next four years would be as follows:

(Rupees in crore)

	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Revenue Receipts	2463.02	2708.35	2966.20	3232.49	3518.56
State’s own tax revenue	95.00	106.40	119.17	133.47	149.48
Share in Central taxes and duties	344.01	378.69	434.50	499.66	577.81
State’s own non-tax revenue	83.00	99.60	119.52	143.42	172.11
Revenue Expenditure	2135.05	2090.75	2256.56	2437.11	2634.30
Capital Receipts	759.11	391.09	415.41	420.84	253.63
Public Account	520.96	138.72	141.89	124.06	(–) 68.75
Capital Expenditure	657.20	928.25	1026.19	1114.32	985.48
Overall surplus(+)/deficit(–)	429.88	80.44	98.86	101.91	152.41
Revenue surplus(+)/deficit(–)	327.97	617.60	709.65	795.39	884.27
Gross fiscal deficit(–)	(–) 287.54	(–)55.38	(–)30.62	(–)18.88	(–)11.40
Primary deficit (+)	(–)47.29	212.55	253.47	279.49	298.55
Fiscal deficit as a percentage of GSDP (in *per cent*)	(–) 6.24	(–) 1.15	(–) 0.59	(–)0.34	(–) 0.19
Gross tax revenue as a percentage of GSDP (in *per cent*)	55.16	56.16	56.95	57.47	57.92

1.11 Fiscal indicators of the Government of Manipur

The finances of a State should be sustainable, flexible and non-vulnerable. Table 21 below presents a summarised position of Government finances over 2000-05 with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

Table 21: Indicators of Fiscal Health (in *per cent*)

Fiscal indicators	2000-01	2001-02	2002-03	2003-04	2004-05	Average
I. Resource Mobilisation						
Revenue Receipt/GSDP	33.08	32.78	35.51	34.96	43.32	36.14
Revenue Buoyancy	*	0.924	3.092	0.805	#	1.295
Own tax/GSDP	1.551	1.420	1.738	1.674	2.013	1.690
Own taxes Buoyancy	1.471	0.298	6.616	0.537	#	1.803
II. Expenditure Management						
Total Expenditure/GSDP	40.26	42.28	42.17	42.00	54.47	44.49
Revenue Receipt/Total Expenditure	82.17	77.53	84.21	83.24	79.52	81.22
Revenue Expenditure/Total Expenditure	88.30	88.13	89.73	85.81	75.32	84.59
Plan Expenditure/Total Expenditure	26.20	24.83	19.04	25.18	35.68	26.87
Capital Expenditure/Total Expenditure	11.64	11.62	10.22	14.08	23.99	15.13
Development Expenditure/Total Expenditure	59.32	62.62	58.38	62.73	66.94	62.46
Buoyancy of TE with RR	*	1.533	0.302	1.181	1.252	0.606
Buoyancy of RE with RR	*	1.516	0.449	0.500	0.562	0.524
III. Management of Fiscal Imbalances						
Revenue deficit (Rs. in crore)	(–) 79	(–) 161	(–) 87	(–) 44	92	(-) 56
Fiscal deficit (Rs. in crore)	(–) 227	(–) 340	(–) 249	(–) 286	(-) 448	(-) 310
Primary Deficit (Rs. in crore)	(–) 50	(–) 149	6	(–) 71	(-) 182	(-) 89
Revenue Deficit/Fiscal Deficit	34.80	47.35	34.94	15.38	@	18.00
IV. Management of Fiscal Liabilities (FL)						
Fiscal Liabilities/GSDP	66.26	61.21	59.49	56.62	76.59	64.05
Fiscal Liabilities/RR	200.29	186.75	167.55	161.97	176.82	177.24
Buoyancy of FL with RR	*	0.397	0.096	0.487	1.495	0.938
Buoyancy of FL with OR	2.406	*	0.023	(–) 1.028	1.216	0.770
Interest spread	5.96	4.77	(–) 7.38	(–) 0.89	(-) 10.82	(-) 1.76
Net Funds Available	12.99	(–) 3.78	(–) 8.84	(–) 9.44	31.18	2.86
V. Other Fiscal Health Indicators						
Return on Investment	0.00	0.07	0.00	0.06	0.06	0.03
BCR (Rs. in crore)	(–) 339	(–) 567	(–) 575	(–) 509	(-) 532	(-) 504
Financial Assets/ Liabilities	1.45	1.36	1.27	1.23	1.22	1.38

Note: Negative figures denote deficit and positive denote surplus.

These ratios indicate a mixed trend. The ratio of own taxes to GSDP had shown improvement in the five-year period increasing from 1.55 *per cent* in 2000-01 to 2.01 *per cent* in 2004-05. Revenue receipt to GSDP ratio, which fluctuated between 33 to 36 *per cent* during-2000-04, jumped to 43.32 *per cent* in 2004-05. The buoyancy of revenue receipt indicates the nature of the tax regime and the State's increasing access to resources. The overall Revenue

* Revenue Receipts, Own Resources, Total Expenditure and Revenue Expenditure had a negative growth.
# GSDP growth was negative.
@ There was revenue surplus in 2004-05.

buoyancy and the buoyancy of own taxes fluctuated during 2000-05 but on an average were more than one.

Various ratios concerning expenditure indicate quality of expenditure and sustainability in relation to resources. All the ratios of quality expenditure showed upward trends. The ratio of plan expenditure to total expenditure rose from 26.20 *per cent* in 2000-01 to 35.68 *per cent* in 2004-05. The capital expenditure to total expenditure ratio also improved from 11.64 *per cent* in 2000-01 to 23.99 *per cent* in 2004-05. The ratio of developmental expenditure to total expenditure also registered an upward trend increasing from 59.32 *per cent* in 2000-01 to 66.94 *per cent* in 2004-05. On the other hand, ratio of revenue expenditure to total expenditure was high during 2000-04 (between 86 to 90 *per cent*) indicating that increasingly more expenditure was incurred during these years on establishment, maintenance and services leaving very little capital on formation of assets. The ratio, however, came down radically to 75.32 *per cent* in 2004-05 indicating some improvement in allocative priorities.

The revenue deficit is the excess of revenue expenditure over revenue receipt and represents the revenue expenditure financed by borrowings *etc*. The higher the revenue deficit 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, worse is the State because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State.

Manipur had revenue deficits in four out of the last five years and faced continued fiscal deficit for the last five years period 2000-05. Continued revenue and fiscal deficits indicate that the State’s finances are vulnerable to sources of funding outside its control. Decrease in the ratio of revenue deficit to fiscal deficit from 34.80 *per cent* in 2000-01 to 15.38 *per cent* in 2003-04 and revenue surplus in 2004-05 mean comparatively lesser application of borrowed funds to meet current consumption. This trend would, however, need to be sustained.

Ratios of fiscal liabilities to GSDP and revenue receipts remained high but showed decreasing trends during 2000-04. These ratios, however, increased considerably during 2004-05 with fiscal liabilities to GSDP ratio going up from 56.62 *per cent* in 2003-04 to 76.59 *per cent* in 2004-05 and fiscal liabilities to revenue receipts growing to 176.28 *per cent* in 2004-05 from 161.97 *per cent* in the previous year. The State should improve the management of its fiscal liabilities and also reduce its fiscal imbalance by drastic reduction in fiscal deficit and minimising revenue deficit to avoid getting into a debt trap.

There was a decline in net availability of funds from its borrowings during 2000-04 due to a larger portion of these funds being used for debt servicing. In fact during three years (2001-04), borrowings were not available at all for developmental expenditure as repayments on borrowings exceeded the receipts. In the year 2004-05 however, situation improved with 31.18 *per cent* borrowed funds remaining available for developmental and other expenditures.

The State's negligible return (0.04 *per cent*) on investment indicates huge implicit subsidy and utilisation of high cost borrowing for investments that yield nothing.

The assets-liabilities ratio indicates the solvency of the Government. A ratio of more than one would indicate that the State Government is solvent while a ratio of less than one would be a contra indicator. In Manipur, there has been consistent decline in the State's ratio of total financial assets to liabilities from 1.45 in 2000-01 to 1.22 in 2004-05 indicating that asset back up of liabilities is diminishing continuously. The State has to either generate more revenue from out of its existing assets or needs to provide from its current revenues for servicing its debt obligations. The balance from current revenue (BCR) which plays a critical role in determining the Plan size, has been negative continuously for all these years. A negative BCR affects the Plan size and reduces availability of funds for additional infrastructure support and other revenue generating investments.

Thus overall fiscal and financial position of the State is poor and the State should speed up the process of fiscal reforms for improving its resource mobilisation, management of expenditure and management of fiscal liabilities.