Chapter 1

Finances of the State Government

1. Profile of Bihar

Bihar is a landlocked State, bounded by West Bengal in the east, Uttar Pradesh in the west, Jharkhand in the south and a long international border with Nepal in the north. It is the twelfth largest State in India in terms of geographical size (94163 sq. km) and the third largest by population. In terms of the Bihar Re-organisation Act 2000 (No.30 of 2000), the composite State of Bihar was re-organised into the State of Bihar with 38 districts and a new State known as Jharkhand comprising 18 districts[1] with effect from 15 November 2000.

The economy of Bihar is primarily agrarian and the State does not possess any significant mineral wealth. As indicated in ***Appendix 1.1***, in the last 10 years, the density of population in Bihar has increased from 881 persons per sq. km to 1102 persons per sq. km. Bihar has higher poverty levels as compared to the all-India average. The State has shown higher economic growth in the past decade as the compound annual growth rate of its Gross State Domestic Product for the period 2001-02 to 2010-11 has been 15.61 *per cent* as compared to 14.68 *per cent* in General Category States. During this period, its population also grew by 25.07 *per cent* (highest among General Category States) against the average of 17.56 *per cent* in General Category States. The per capita income compound annual growth rate in Bihar (11.44 *per cent)* was higher than the average compound annual growth rate of the General Category States (11.32 *per cent)* in the current decade but the per capita GSDP income/contribution during 2010-11 was lowest as compared to the average of the per capita GSDP income of the General Category States.

1.1 Introduction

This Chapter is based on the audit of Finance Accounts and makes an assessment of the Bihar Government's fiscal position as on 31 March 2011. It provides a broad perspective of the finances of the Government of Bihar during the current year. It analyses the significant changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure and form of Government accounts have been explained in ***Appendix 1.2 Part A*** and the layout of the Finance Accounts is depicted in ***Appendix 1.2 Part B.*** The methodology adopted for assessment of the fiscal position and norms/ceilings prescribed by the Fiscal Responsibility and Budgetary Management (FRBM) Act, 2010 are given in ***Appendix 1.3***.

1.1.1 Summary of the current year's fiscal transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2010-11) *vis-à-vis* the previous year. The details of receipts and disbursements and the overall fiscal position during the current year is given at ***Appendix 1.4***.

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[1] Bokaro, Chatra, Deoghar, Dhanbad, Dumka, Garhwa, Giridih, Godda, Gumla, Hazaribagh, Kodarma, Lohardaga, Pakur, Palamu, Ranchi, Sahebganj, Singhbhum (east) and Singhbhum (west).

Table 1.1: Summary of Current Year's Fiscal Transactions

(₹ in crore)

2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
Section-A: Revenue					Non-Plan	Plan	Total
35526.83	**Revenue receipts**	**44532.32**	**32584.17**	**Revenue expenditure**	**27316.41**	**10899.51**	**38215.92**
8089.67	Tax revenue	9869.85	12202.35	General services	15109.01	177.96	15286.97
1670.42	Non-tax revenue	985.53	13186.41	Social services	7310.33	7779.09	15089.42
18202.58	Share of Union Taxes/ Duties	23978.38	7087.95	Economic services	4893.82	2942.46	7836.28
7564.16	Grants from Government of India	9698.56	107.46	Grants-in-aid and Contributions	3.25	0.00	3.25
Section-B: Capital							
0.00	**Misc. Capital Receipts**	**0.00**	**7332.09**	**Capital Outlay**	**45.69**	**9150.25**	**9195.94**
13.20	**Recoveries of Loans and Advances**	**11.86**	**896.78**	**Loans and Advances disbursed**	**268.05**	**834.58**	**1102.63**
6134.39	**Public Debt receipts***	**6032.42**	**1982.99**	**Repayment of Public Debt***	**-**	**-**	**2190.03**
0.00	**Contingency Fund**	**1150.00**	**0.00**	**Contingency Fund**	**-**	**-**	**1150.00**
15303.39	**Public Account receipts**	**17321.25**	**15447.74**	**Public Account disbursements**	**-**	**-**	**16749.02**
3557.09	**Opening Cash Balance**	**2291.13**	**2291.13**	**Closing Cash Balance**	**-**	**-**	**2735.44**
60534.90	**Total**	**71338.98**	**60534.90**	**Total**			**71338.98**

(Source: Finance Accounts for the year 2009-10 and 2010-11)
***Excluding net transactions under ways and means advances and overdraft.**

The following are the major changes in fiscal transactions during 2010-11 over the previous year:

- Revenue receipts increased by ₹ 9005 crore (25 *per cent*) due to increase in tax revenue by ₹ 1780 crore (22 *per cent*). Share of Union taxes and duties from GOI increased by ₹ 5775 crore (32 *per cent*) and grants-in-aid from GOI increased by ₹ 2135 crore (28 *per cent*). The State's own tax revenue (₹9870 crore) was higher by 20 *per cent* than the target fixed by the ThFC (₹8242 crore) but fell short by seven *per cent* of the Budget Estimates (₹10644 crore). The State's non-tax revenue decreased by ₹685 crore (41 *per cent*) during this year and fell short by 40 *per cent* of the assessment made by the ThFC (₹1654 crore) and 18 *per cent* of the Budget Estimates (₹1207 crore).

- Revenue expenditure increased by ₹ 5632 crore (17 *per cent*), mainly due to increase in expenditure on Social Services (₹1903 crore), Economic Services (₹748 crore) and General Services (₹3085 crore). The Non-Plan revenue expenditure (NPRE)(₹27316 crore) was higher by ₹ 2529 crore (10 *per cent*) than the assessment made by the ThFC (₹24787 crore) but was lesser by ₹ 2367 crore (eight *per cent*) than the Budget Estimates (₹ 29683 crore).

- There was an increase of ₹ 1864 crore (25 *per cent*) in capital expenditure, mainly due to increase in the expenditure on Power Projects (₹631.23 crore), Rural Development Programmes (₹351.18 crore), Water Supply and Sanitation (₹165.03 crore).
- Recoveries of loans and advances decreased from ₹ 13.20 crore to ₹ 11.86 crore during the current year, whereas disbursements of loans and advances increased from ₹ 897 crore to ₹ 1103 crore during the year. This resulted in a net increase in disbursements by ₹ 205 crore.
- Public debt receipts decreased by ₹102 crore (two *per cent*). Its repayments increased by ₹ 207 crore (10 *per cent*). Thus, there was a net increase of ₹ 105 crore in public debt.
- The Public Accounts receipts increased from ₹ 15503 crore in 2009-10 to ₹17321 crore in 2010-11 and their disbursement also increased from ₹15448 crore in 2009-10 to ₹ 16749 crore in 2010-11.
- The net impact of these transactions led to an increase of ₹ 444 crore in the cash balance at the end of the year over the previous year's balance.

1.2 Resources of the State

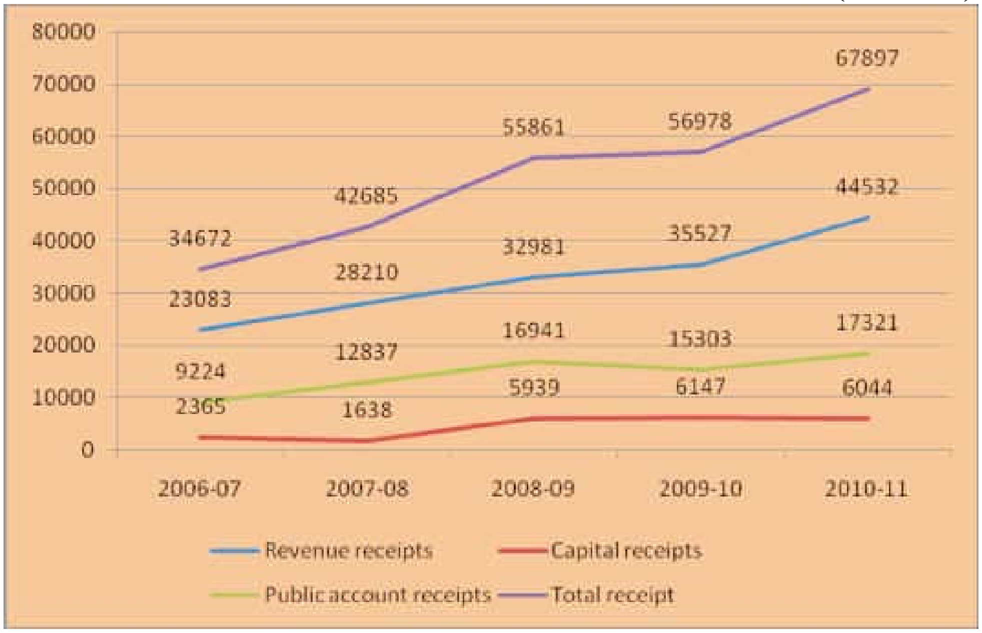
1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts (market loans, borrowings from financial institutions/commercial banks) and loans and advances from the GOI as well as accruals from Public Account.

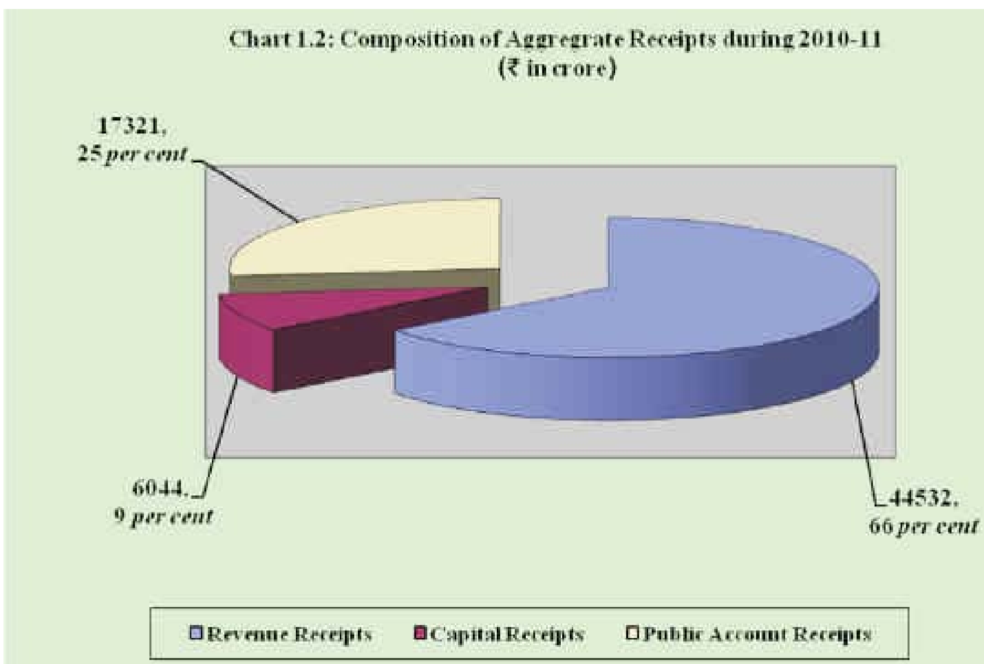
Table 1.1 represents the receipts and disbursements of the Government during 2010-11 as recorded in the Finance Accounts 2010-11 while **Chart 1.1** depicts the trend of various components of the receipts of the Government during 2006-11. **Chart 1.2** depicts the composition of resources of the Government during 2010-11.

Chart 1.1: Trends in Aggregate Receipts

(₹ in crore)



(Source: State Finance Accounts of the respective years.)



(Source: State Finance Accounts of 2010-11)

The receipts of the Government increased by ₹ 33225 crore, (96 *per cent*) from ₹ 34672 crore in 2006-07 to ₹ 67897 crore in 2010-11. Revenue receipts increased by ₹ 21449 crore (93 *per cent*), capital receipts which included recoveries of loans and advances and public debt increased by ₹ 3679 crore (156 *per cent*) and public account receipts increased by ₹ 8097 crore (88 *per cent*) during the same period. The share of revenue receipts in the total receipts decreased from 67 *per cent* in

2006-07 to 66 *per cent* in 2010-11. The share of the Public Accounts in the total receipts remained around 26 *per cent* during 2006-11 whereas the share of capital receipts including debt increased from seven to nine *per cent* during the same period.

1.2.2 Funds transferred to State implementing agencies outside the State budget

The Government of India has been transferring a sizeable quantum of funds directly to State implementing agencies[2] for the implementation of various schemes/programmes in the social and economic sectors. As these funds are not routed through the State Budget/State Treasury System, the Annual Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. To present a holistic picture on the availability of aggregate resources, funds directly transferred to State implementing agencies during 2009-10 and 2010-11 are presented *in* ***Appendix 1.5*****.**

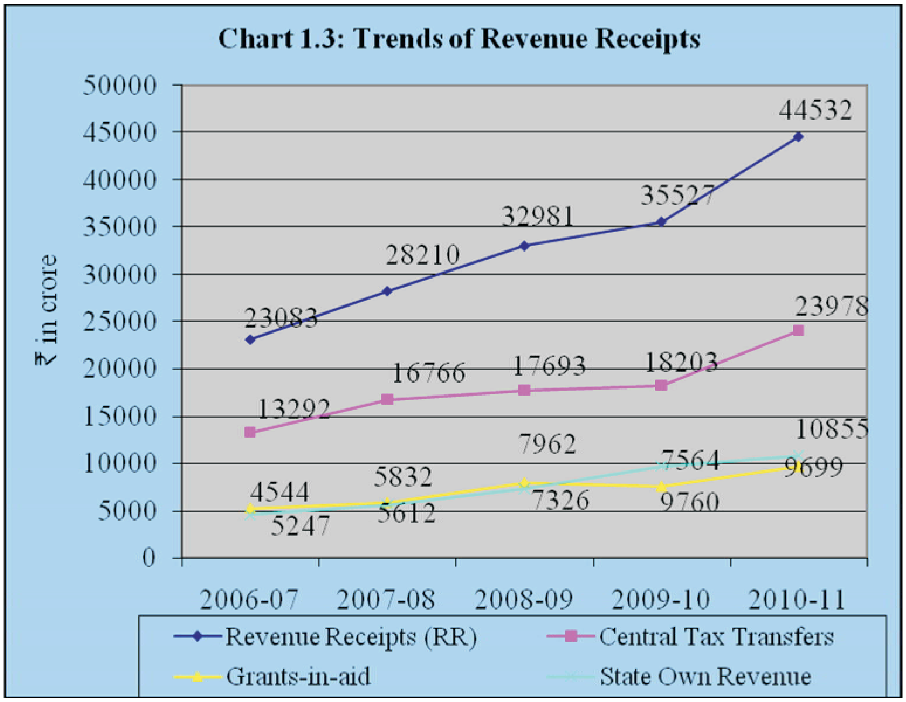
Appendix 1.5**,** shows that the funds, aggregating ₹ 10309 crore, transferred directly to the State implementing agencies, increased by 99 *per cent* during 2010-11. The increase was mainly in the funds transferred to the Bihar Education Project Council by ₹ 831 crore (68 *per cent*), District Rural Development Agency ₹ 1339 crore (42 *per cent*) and Health Insurance for Unrecognised Sector Workers (Rashtrya Swastha Bima) ₹ 24 crore (75 *per cent*) apart from fresh allocation to Pradhan Mantri Gram Sarak Yojna (PMGSY) ₹ 3459 crore in 2010-11. However, the transfer of funds decreased under the National Rural Health Mission by ₹ 401 crore (95 *per cent*), the National Child Labour Project including grants-in-aid to voluntary agencies by ₹ 10 crore (56 *per cent*) and setting up of new IITs by ₹ 33 crore (62 *per cent*).

As the funds are not routed through the Government accounts, the direct transfer of funds from GOI to the State implementing agencies runs the risk of oversight of maintenance of accounts and non-utilization of funds by these agencies. In the absence of uniform accounting practices followed by all these agencies, proper documentation by these implementing agencies was not being done. The expenditure in the Finance Accounts was understated to that extent.

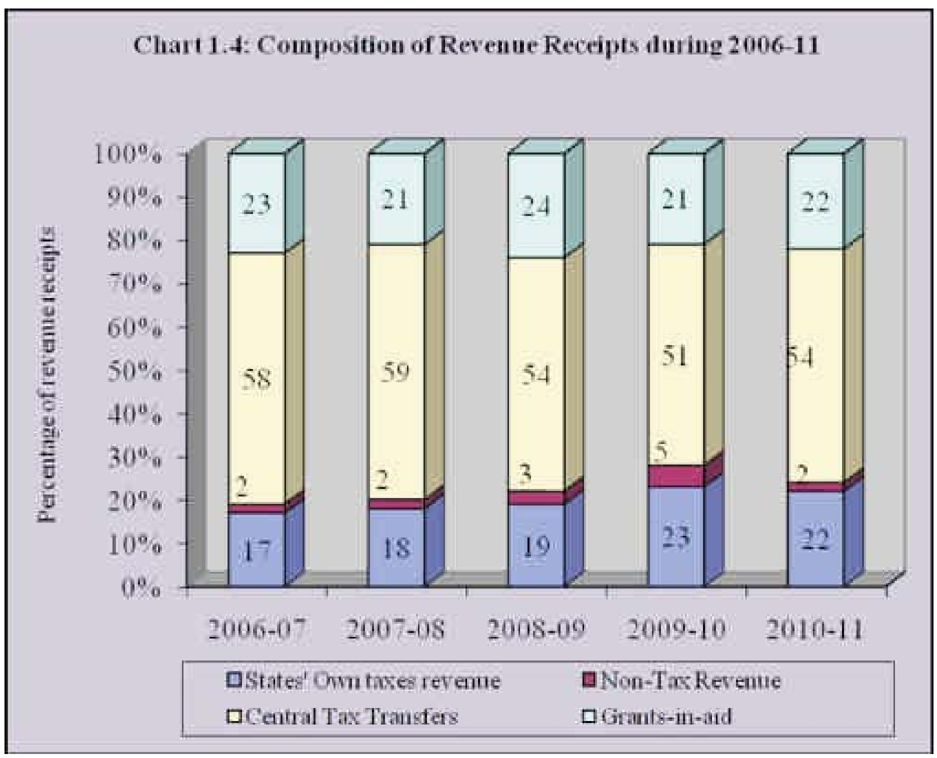
1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenue, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2006-11 are presented in ***Appendix 1.4*** and also depicted in **Charts 1.3** and **1.4** respectively.

[2] State implementing agencies include any organizations/institutions including non-governmental organizations which are authorized by the State Government to receive funds from the Government of India implementing specific programmes in the State, e.g. State implementing society for Sarva Shiksha Abhiyan, State Health Mission under National Rural Health Mission, etc.



(Source: State Finance Accounts of the respective years)



(Source: State Finance Accounts of the respective years)

The revenue receipts of the State increased by 93 *per cent* during the period from 2006-07 to 2010-11. The State's own revenue increased by 139 *per cent,* the grants-in-aid from GOI increased by 85 *per cent* and the Central tax transfers increased by 80 *per cent* during the same period. The share of the State's own revenue (tax revenue and non-tax revenue) in the total revenue increased from 19 *per cent* in 2006-07 to 24 *per cent* in 2010-11, which was mainly due to increase in non-tax revenue from ₹ 511 crore in 2006-07 to ₹ 985 crore in 2010-11. The share of grants-in-aid from GOI and Central tax transfers decreased from 23 and 58 *per cent* in 2006-07 to 22 and 54 *per cent* in 2010-11 respectively.

During 2001-02 to 2009-10, the compound growth rate of revenue receipts (17.41 *per cent*) was more than the growth rate of General Category States (15.20 *per cent*). This growth rate for the period 2001-02 to 2010-11 increased to 18.25 *per cent.*

The trends in revenue receipts relative to GSDP at current prices are presented in **Table 1.2**.

Table 1.2: Trends in Revenue Receipts relative to GSDP

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (₹ in crore)	**23083**	**28210**	**32981**	**35527**	**44532**
Rate of growth of RR (*per cent)*	29.41	22.21	16.91	7.72	25.35
R R/GSDP (*per cent)*	23.18	24.61	23.14	22.91	20.90
Buoyancy Ratios[3]					
Revenue Buoyancy with reference to GSDP	1.16	1.47	0.70	0.88	1.17
State's own tax buoyancy with reference to GSDP	0.52	1.73	0.88	3.53	1.02
GSDP (in crore)	**103317**	**118687**	**150709**	**175245**	**213073**
Rate of growth of GSDP	23.66	14.88	26.98	16.28	21.59

(Source: State Finance Accounts of the respective years).

The growth rate of revenue receipts which indicated decreasing trends between 2006-07 to 2009-10 as it declined from 29.41 *per cent* in 2006-*07* to 7.72 *per cent* in 2009-10, has shown some improvement by rising to 25.35 *per cent* in 2010-11, while the percentage ratio of revenue receipts to GSDP has decreased from 22.91 in 2009-10 to 20.90 in 2010-11. The State's own tax buoyancy with reference to GSDP increased from 0.52 in 2006-07 to 1.02 in 2010-11, while the revenue buoyancy with reference to GSDP increased from 1.16 in 2006-07 to 1.17 in 2010-11.

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, the collection of Central tax receipts and Central assistance for Plan schemes etc, the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

[3] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

The State's actual tax and non-tax revenues for the year 2010-11 *vis-a-vis* the assessment made by ThFC and the Budget Estimates are given in **Table 1.3** below:

Table 1.3 Assessment/Projection and Actual Figures

(₹ in crore)

	Thirteenth Finance Commission Assessment	State's Budget Estimate projections	Actuals
Tax revenue	8242	10644	9870
Non-tax revenue	1654	1207	985

(Source: State Finance Accounts, ThFC, Budget estimates, 2010-11)

Though the State's tax revenue during 2010-11 exceeded the ThFC assessment by ₹ 1628 crore, it was less than the Budget Estimates by ₹ 774 crore. However, the actuals of non-tax revenue were less than the assessment of the ThFC and the State's Budget Estimates by ₹ 669 crore and ₹ 222 crore respectively. The major reasons for non-achievement of non-tax revenue targets were reduction in collection of ₹ 770 crore under Miscellaneous General Services and of ₹ 115 crore under Interest Receipts.

Tax Revenue

The tax revenue increased by 145 *per cent* during 2006-11 from ₹ 4033 crore in 2006-07 to ₹ 9870 crore in 2010-11. Component-wise increases are indicated in **Table 1.4.**

Table 1.4: Major Components of Increase in Tax Revenue 2006-11

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Taxes on Sales, Trade, etc.	2081	2535	3016	3839	4557
Rate of growth	20	22	19	27	19
State Excise	382	525	679	1082	1523
Rate of growth	20	37	29	59	41
Stamps and Registration	455	654	716	998	1099
Rate of growth	-10	44	10	39	10
Taxes on vehicles	181	273	298	345	455
Rate of growth	-40	51	10	16	32

(Source: State Finance Accounts of the respective years).

The revenue from taxes on sales, trade, etc comprised the major share of tax revenue and ranged from 52 *per cent* in 2006-07 to 46 *per cent* in 2010-11. The share of Stamps and Registration remained almost constant at 11 *per cent.* The share of State excise ranged from nine *per cent* to 16 *per cent* and Taxes on vehicles ranged from four to five *per cent* during the same period ***(Appendix 1.6)***. During 2001-02 to 2009-10, the compound growth rate of tax revenue (16.90 *per cent*) was higher than the growth rate of General Category States (14.53 *per cent*). This growth rate for the period 2001-02 to 2010-11 increased to 17.44 *per cent* ***(Appendix 1.1).***

1.3.2 Expenditure on Tax Collection

Table 1.5 indicates the major revenue sources, gross collection of major taxes, expenditure on collection for the years 2009-10 to 2010-11 along with the relevant all-India average for 2009-10.

Table 1.5: Cost of collection

(₹ in crore)

Sl. no.	Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 2009-10
1.	Commercial taxes*	2009-10	5,541.00	48.84	0.88	0.96
		2010-11	6653.37	57.23	0.86	
2.	State excise	2009-10	1,081.68	44.02	4.07	3.64
		2010-11	1523.35	37.65	2.47	
3.	Stamp duty and registration fees	2009-10	997.90	45.90	4.60	2.47
		2010-11	1098.68	46.58	4.24	
4.	Taxes on vehicles	2009-10	345.13	10.41	3.02	3.07
		2010-11	455.43	16.92	3.72	

(Source: State Finance Accounts of the respective years.)

The expenditure on collection of tax revenue was 0.86 to 0.88 *per cent* for commercial taxes which was less than the all-India average 0.96 *per cent.* In State excise, it was 2.47 *per cent* to 4.07 *per cent* whereas the all-India average was 3.64 *per cent.* In the case of Stamp duties and Registration fees, it was 4.24 *per cent* to 4.60 *per cent,* which was higher than the all-India average of 2.47 *per cent.* Similarly, the cost of collection of taxes on vehicles was 3.02 to 3.72 *per cent* against the all-India average of 3.07 *per cent* as detailed in **Table 1.5.**

1.3.3 Revenue Refund

The position of revenue refund cases pending at the beginning and the end of the financial year 2010-11 is indicated in **Table 1.6**.

Table 1.6: Position of pending Refund cases

(₹ in crore)

Sl. no.	Particulars	Sales tax/VAT		Taxes on entry of goods into local areas		Entertainment tax	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year 2010-11	2340	9506.77	103	96.74	06	2.00
2.	Claims received during the year	144	2272.93	01	563.20	Nil	Nil
3.	Refunds made during the year	174	1079.83	01	563.20	Nil	Nil
4.	Balance outstanding at the end of the year	2310	10699.87	103	96.74	06	2.00

(Source: Commercial Taxes Department, Government of Bihar).

* Gross collection by the Commercial Tax Department includes Sales tax/Value Added Tax (VAT), taxes on goods and passengers - Tax on entry of goods into local areas, Taxes and duties on electricity and Other taxes and duties on commodities and services.

1.3.4 Arrears of Revenue

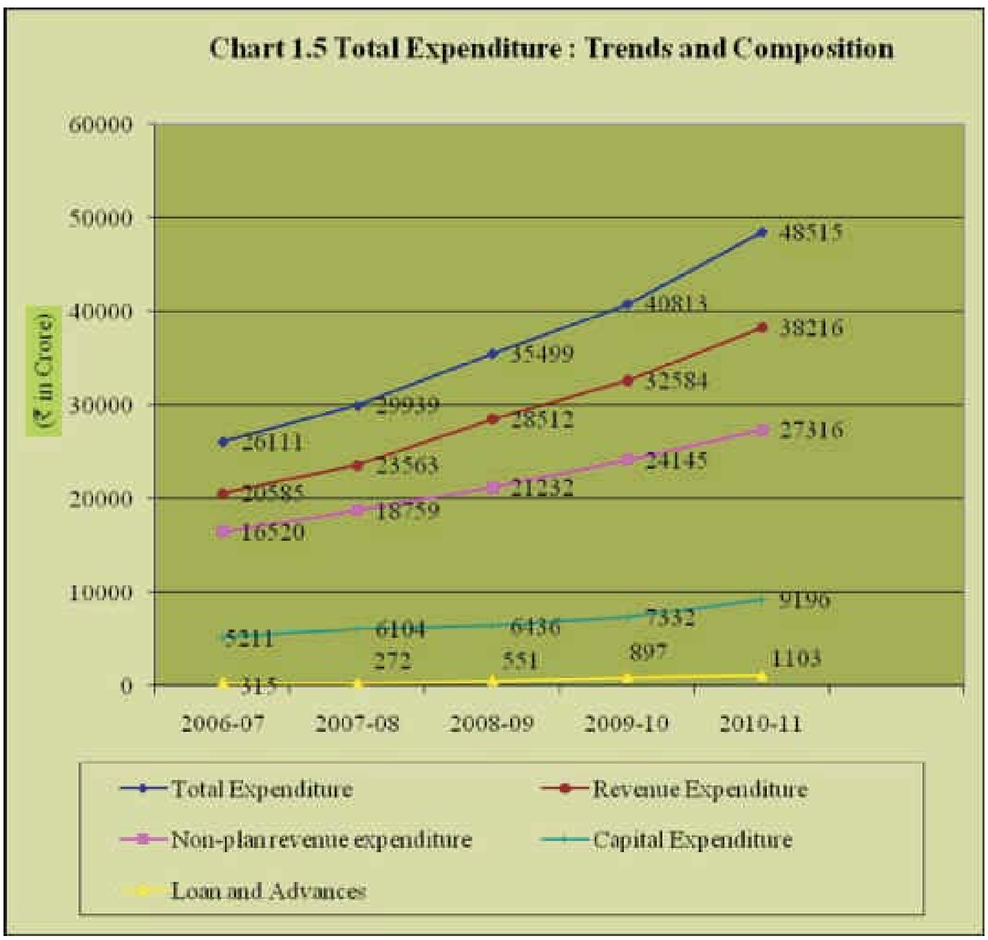
The arrears of revenue as on 31 March 2011 in respect of the principal heads of revenue (as reported by seven departments) was ₹ 1198.24 crore, of which ₹ 598.99 crore was outstanding for more than five years as mentioned in ***Appendix 1.7.***

1.4 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore important to ensure that the ongoing and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and Composition of Expenditure

Trends observed in total expenditure of over a period of five years (2006-11) as shown in **Chart 1.5** and its composition both in terms of "Economic Classification" and "Expenditure by Activities" is depicted in **Chart 1.6** and **1.7.**



(Source: State Finance Accounts of the respective years)

Table 1.7 presents the growth of capital expenditure over the last five years (2006-11):

Table 1.7: Growth of Capital Expenditure

	2006-07	2007-08	2008-09	2009-10	2010-11
Capital expenditure	5211	6104	6436	7332	9196
Growth rate (*per cent*)	150	17	05	14	25
Percentage of total expenditure	20	20	18	18	19

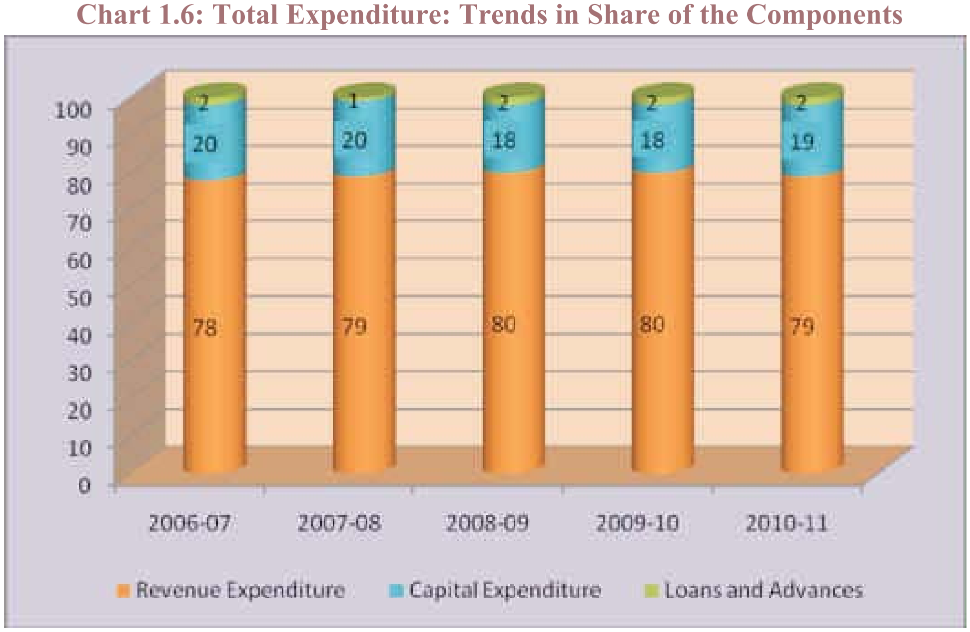
(Source: State Finance Accounts of the respective years)

Total expenditure increased by 86 *per cent* over a period of five years (2006-11). While the revenue expenditure increased by 86 *per cent,* the capital expenditure increased by 76 *per cent* during this period. However, the share of NPRE in the total expenditure decreased from 63 *per cent* in 2006-07 to 56 *per cent* in 2010-11 as indicated in **Chart 1.5**. The compound annual growth rate (33.14 *per cent*) of capital expenditure for 2001-02 to 2009-10 was higher than that the compound annual growth rate (22.61 *per cent*) of General Category States. This growth rate for the period 2001-02 to 2010-11 decreased to 32.22 *per cent* ***(Appendix1.1)***.

Disbursement of loans and advances also increased by 250 *per cent* during the period from 2006-07 to 2010-11 whereas the share of loans and advances to total expenditure increased from one *per cent* to two *per cent*.

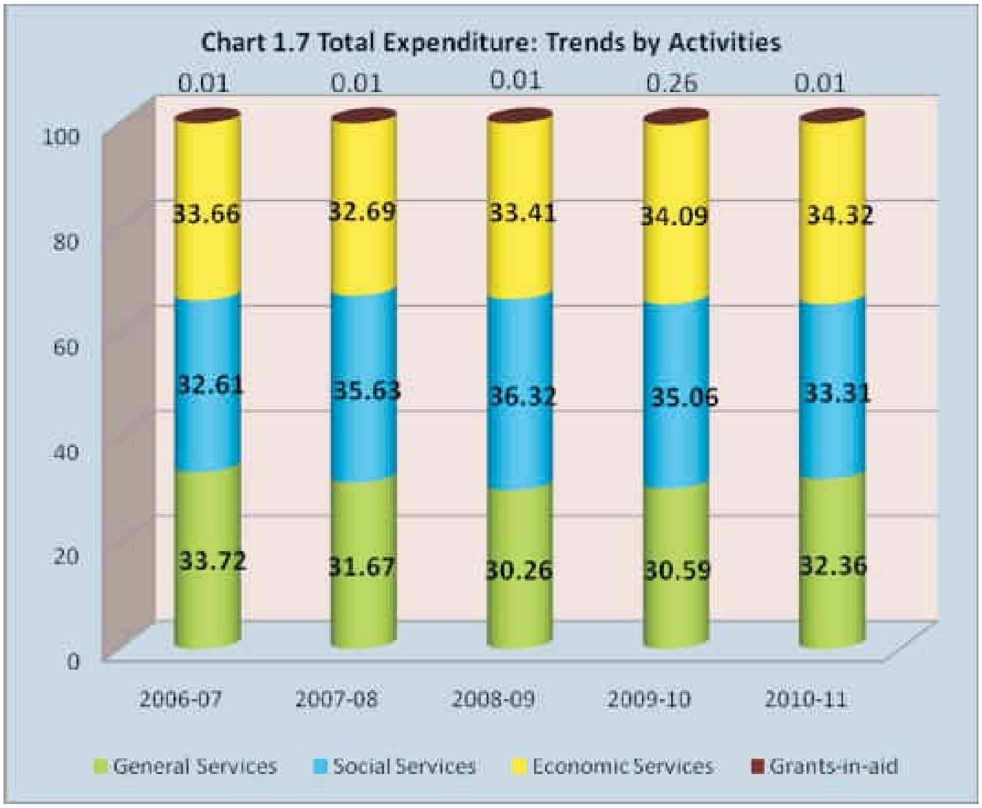
During 2001-02 to 2009-10, the compound growth rate (16.02 *per cent*) of total expenditure was higher than the compound growth rate (13.53 *per cent*) of General Category states. This growth for the period 2001-02 to 2010-11 increased to 16.31 *per cent.* The total expenditure increased by 19 *per cent* during the year. The bifurcation of total expenditure into Plan and Non-Plan expenditure was 44 *per cent* and 56 *per cent* respectively.

Chart 1.6: Total Expenditure: Trends in Share of the Components



(Source: State Finance Accounts of the respective years)

The share of revenue expenditure in the total expenditure increased from 78 *per cent* in 2006-07 to 79 *per cent* in 2010-11, while the share of capital expenditure in total expenditure decreased from 20 *per cent* in 2006-07 to 19 *per cent* in 2010-11. The share of loans and advances remained constant during the period. The ratio of NPRE to total expenditure decreased from 63 *per cent* in 2006-07 to 56 *per cent* in the year 2010-11. The ratio of NPRE to GSDP decreased from 16 *per cent* to 13 *per cent* in 2006-11.



(Source: State Finance Accounts of the respective years)

The movement of relative shares of various components of expenditure indicated that while the share of General Services including interest payments decreased from 34 *per cent* in 2006-07 to 32 *per cent* in 2010-11. The share of Economic Services remained constant during the period. The combined share of Social and Economic Services which represented development expenditure also remained constant during this period.

Revenue expenditure of the State increased by 17 *per cent* from ₹ 32584 crore in 2009-10 to ₹ 38216 crore in 2010-11, mainly due to increase in expenditure on General Services (₹ 3085 crore) on account of more expenditure on pension (₹ 1825 crore) and interest payments (₹ 634 crore). The expenditure on Social Services also increased by ₹ 1904 crore over the previous year due to more expenditure on Education, Sports, Art and Culture (₹ 684 crore), Social Welfare and Nutrition (₹ 643 crore), Water Supply and Sanitation (₹ 260 crore), and Health and Family Welfare (₹ 114 crore). The break-up of revenue expenditure into NPRE and Plan revenue expenditure (PRE) showed that the proportionate share of NPRE was substantially higher than the PRE. The total increase of ₹ 5632 crore comprised of ₹ 3171 crore and ₹ 2461 crore in NPRE and PRE respectively.

The NPRE in 2010-11 at ₹ 27316 crore was higher than the normative assessment of ThFC (₹ 24787 crore) but less than Budget Estimates (₹ 29683 crore).

1.4.2 Committed Expenditure

The committed expenditure of the State Government on the revenue account consisted mainly of interest payments, salaries, pensions and subsidies. The trend of expenditure of these components during 2006-11 are presented in **Table 1.8.**

Table-1.8: Components of Committed Expenditure

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Salaries of which	**6016.21** (26.06)	**6469.53** (22.93)	**7545.61** (22.88)	**9658.74** (27.18)	**10091.59**	**10549.85** (23.69)
Under Non-Plan Head	*5538.57*	*5914.81*	*6995.31*	*9001.42*	*NA*	9953.36
*Under Plan Head**	*477.64*	*554.72*	*550.30*	*657.32*	*NA*	596.49
Interest Payments	3416 (14.80)	3707 (13.14)	3753 (11.38)	3685.48 (10.37)	4513.10	4319.16 (9.70)
Expenditure on Pensions	2497 (10.82)	2789 (9.89)	3479.03 (10.55)	4318.70 (12.16)	5873.47	6143.86 (13.80)
Subsidies	-	-	861.58 (2.61)	944.39 (2.66)	-	1349.96 (3.03)
Total Committed Expenditure	11929.21 (52)	12965.53 (46)	15639.22 (47)	18607.31 (52)	-	22362.83 (50)
Other Components	8655.79 (38)	10597.47 (38)	12872.78 (39)	13976.69 (39)	-	15853.17 (35)
Total Revenue Expenditure	20585	23563	28512	32584	40678	38216
Revenue Receipts	23083	28210	32981	35527	47235	44532

(Source: State Finance Accounts of the respective years)

Figures in the parentheses indicate percentage to Revenue Receipts

**Plan Head also includes the salaries paid under the Centrally Sponsored Schemes*

Salaries

The expenditure on salaries (₹ 10550 crore) increased by 75 *per cent* during the period from 2006-07 to 2010-11. During 2001-02 to 2009-10, the compound annual growth rate of expenditure on salaries (7.85 *per cent)* was less than the growth rate (11.45 *per cent)* of General Category States. This growth rate for the period 2001-02 to 2010-11 increased to eight *per cent* ***(Appendix 1.1)***. The expenditure on salaries was 15 *per cent* and five *per cent* higher than assessment made by ThFC (₹ 9165 crore) and Budget Estimates (₹ 10092 crore) respectively.

Interest Payments

Interest payments (₹ 4319 crore) increased by 26 *per cent* over the last five years (2006-11) and increased by 17 *per cent* (₹ 634 crore) over the previous year. This percentage of interest payments to revenue receipts decreased from 15 in 2006-07 to 10 in 2010-11. Interest payments during 2010-11 were within the assessment made by ThFC (₹ 4439 crore) and the Budget Estimates (₹ 4513 crore) for the year 2010-11.

Pension Payments

Pension payments (₹ 6144 crore) increased by 146 *per cent* during the period from 2006-07 to 2010-11 but its percentage to revenue receipts increased from 11 in 2006-07 to 14 in 2010-11. During 2001-02 to 2009-10, the compound annual growth rate of expenditure on pension (8.35 *per cent*) was less than the compound annual growth rate (14.09 *per cent*) of General Category States. However, this growth rate for the period 2001-02 to 2010-11 increased to 11.67 *per cent* ***(Appendix 1.1)***. The expenditure on pension payments in 2010-11 was 59 *per cent* and five *per cent* higher than the assessment made by ThFC (₹ 3859 crore) and the budget estimates (₹ 5873 crore) respectively.

Subsidies

In any welfare State, it is not uncommon to provide subsidies/subventions to disadvantaged sections of the society. Subsidies may be dispensed either explicitly or implicitly by providing subsidised public services to the people. Budgetary support to financial institutions, inadequate returns on investments and poor recovery of user charges from social and economic services provided by the Government fall in the category of implicit subsidies.

Payment on subsidies increased by ₹ 406 crore (43 *per cent)* from the previous year and became ₹ 1350 crore in 2010-11, which was three *per cent* of the revenue receipts. Out of the total subsidies of ₹ 1350 crore, ₹ 1080 crore (80 *per cent)* was provided as resource gap to the Bihar State Electricity Board (BSEB) against last years ₹ 840 crore and ₹ 70.84 crore for Rural Sanitation, ₹ 65.61 crore as electricity subsidy for Industry departments etc.

1.4.3 Financial Assistance by State Government to local bodies and other institutions.

Table 1.9 Financial Assistance to Local Bodies etc

(₹ in crore)

Financial Assistance to Institutions	2006-07	2007-08	2008-09	2009-10	2010-11
Educational Institutions (Aided Schools, Aided Colleges, Universities)	845.17	808.58	966.80	613.07	1940.11
Municipal Corporations and Municipalities	141.13	209.40	950.04	997.68	690.21
Zilla Parishad and Other Panchayati Raj Institutions	6.50	13.16	900.05	1395.22	1515.34
Development Agencies	3.20	1.88	26.84	984.13	394.24
Hospitals and Other Charitable Institutions	-	5.00	20.51	33.44	53.67
Other Institutions	21.23	95.35	1558.25	356.33	28.25
Total	**1017.23**	**1133.37**	**4422.49**	**4379.87**	**4621.82**
Assistance as per percentage of RE	**4.94**	**4.81**	**15.51**	**13.44**	**12.09**

(Source: State Finance Accounts of the respective years)

Financial assistance to local bodies and other institutions increased from ₹ 1017.23 crore in 2006-07 to ₹ 4621.82 crore constituting 12 *per cent* of the revenue expenditure during 2010-11. An analysis of the above table reveals that the financial assistance during 2010-11 increased to ₹ 4621.82 crore from ₹ 4379.87 crore in 2009-10. The increase of ₹ 241.95 crore (5.52 *per cent)* over the previous year was mainly due to increase in assistance to educational institutions (₹ 1327.04 crore), Zila Parishad and Panchayati Raj Institutions

(₹ 120.12 crore), hospitals and other charitable institutions (₹ 20.23 crore). The assistance to development agencies, municipal corporations and municipalities and other institutions, however decreased by ₹ 589.89 crore, ₹ 307.47 crore and ₹ 328.08 crore respectively.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects viz., adequacy of the expenditure (i.e. adequate provision for providing public services); efficiency of expenditure and effectiveness of expenditure (assessment of outlay-outcome relationships for selected services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Government are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like, education and health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.10** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2010-11.

Table-1.10: Fiscal Priority and Fiscal Capacity of the State in 2007-08 and 2010-11

(In *per cent*)

Fiscal Priority by the State	AE/ GSDP	DE/ AE	SSE/ AE	CE/ AE	Education/ AE	Health/ AE
General Category States Average (Ratio) 2007-08	17.09	64.28	32.54	16.14	14.64	3.98
Bihar's Average (Ratio) 2007-08	25.23	67.43	35.63	20.39	18.55	4.63
General Category Average (Ratio) 2010-11	16.68	64.29	36.68	13.25	17.39	4.34
Bihar's Average (Ratio) 2010-11	22.77	65.39	33.31	18.95	16.99	3.44

* As *per cent* of GSDP
AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure
CE: Capital Expenditure
Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.
Source: For GSDP, the information furnished by the State's Directorate of Economics and Statistics

Table 1.10 indicates the following:

- The aggregate expenditure of the State as a ratio to GSDP was higher in both the years 2007-08 and 2010-11 as compared to the average of General Category States.

- Development expenditure as a proportion of aggregate expenditure has also been higher than the average of the General Category States.

- Adequate priority given to the social sector, health sector and education sector in 2007-08 could not be sustained and the expenditure on these sectors declined in 2010-11, as compared to the average of the General Category States.

- The proportion of expenditure spent on capital has been higher in both the years 2007-08 and 2010-11, when compared to the average of General Category States. Increased priority to physical capital formation will further increase the growth prospects of the State by creating durable assets.

1.5.2 Efficiency of Expenditure

In view of the importance of public expenditure on development heads[4] to accelerate the State's social and economic development, it is important for the State Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[5]. Apart from improving the allocation towards development expenditure[6], particularly in view of the fiscal space being created on account of decline in expenditure on debt servicing in the recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure incurred on the operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would the quality of expenditure .

Developmental expenditure comprises revenue and capital expenditure including loans and advances in socio-economic services. **Table 1.11** and **Chart 1.8** present the trends of 'developmental expenditure' relative to the aggregate expenditure of the State during 2006-11, **Table 1.12** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected Social and Economic Services during 2009-10 and 2010-11.

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[4] Development heads include Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

[5] *Core public goods* are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc.

Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay to the Government and therefore, wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

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

Table-1.11: Development Expenditure relative to aggregate expenditure

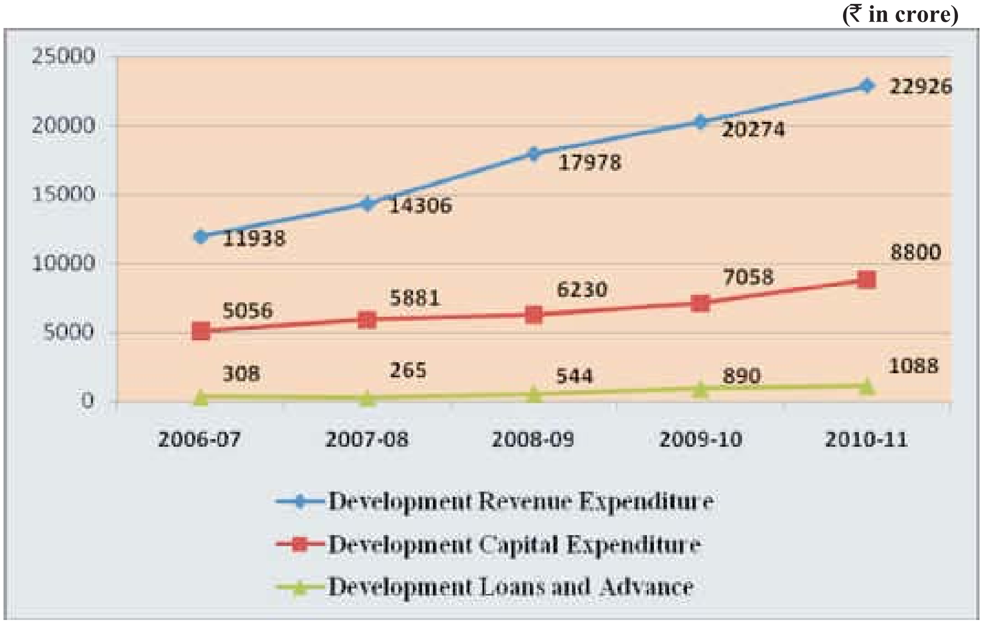
(₹ in crore)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11
Development Expenditure (a to c) ***percentage of DE to total expenditure***	17302 (66.26)	20452 (68.31)	24752 (69.73)	28222 (69.15)	32814 (67.64)
a. Development Revenue Expenditure#	11938 (45.72)	14306 (47.78)	17978 (50.64)	20274 (49.68)	22926 (47.26)
b. Development Capital Expenditure#	5056 (19.36)	5881 (19.64)	6230 (17.55)	7058 (17.29)	8800 (18.14)
c. Development Loans and Advances	308 (1.18)	265 (0.89)	544 (1.53)	890 (2.18)	1088 (2.24)

(Source: State Finance Accounts of the respective years)
(Note: Figures in Parentheses indicate percentage of aggregate expenditure.)
 # Included social service and economic service expenditure

Chart 1.8: Components of Development Expenditure

(₹ in crore)



(Source: State Finance Accounts of the respective years)

Developmental expenditure increased by 90 *per cent* during the period from 2006-07 to 2010-11. This expenditure, which constituted 68 *per cent* of the total expenditure increased by ₹ 4592 core (16 *per cent)* from ₹ 28222 crore in 2009-10 to ₹ 32814 crore in 2010-11. Revenue expenditure constituted 70 *per cent* of developmental expenditure whereas the share of capital expenditure including loans and advances was 30 *per cent.* The development capital expenditure during the year increased by 25 *per cent* over previous year, which indicates that more expenditure was incurred on asset creation.

Table 1.12: Efficiency of Expenditure use in Selected Social and Economic Services

(*Percentage*)

Social/Economic Infrastructure	2009-10		2010-11	
	Share of CE in TE	In RE, the share of Salaries	Share of CE in TE	In RE, the share of Salaries
Social Services (SS)				
General Education	3.88	73.33	0.15	44.60
Health and Family Welfare	7.99	66.21	9.90	73.32
WS, Sanitation, & HUD	24.42	11.28	27.06	10.28
Total (SS)	7.85	38.67	6.71	43.25
Economic Services (ES)				
Agri & Allied Activities	0.07	26.19	0.83	19.57
Irrigation and Flood Control	60.05	68.80	51.04	47.73
Power & Energy	30.23	-	45.31	-
Transport	81.59	22.55	86.52	25.73
Total (ES)	**49.08**	**22.87**	**55.51**	**22.86**
Total (SS+ES)	**28.18**	**33.14**	**30.72**	**36.80**

(Source: State Finance Accounts of the respective year).
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure

The ratio of capital expenditure on Social Services with reference to the total expenditure decreased from 7.85 in 2009-10 to 6.71 in 2010-11, whereas the ratio of capital expenditure on Economic Services increased from 49.08 in 2009-10 to 55.51 in 2010-11.

The share of expenditure on salaries increased from 38.67 *per cent* in 2009-10 to 43.25 *per cent* in 2010-11. Under Economic Services, the share of salaries decreased from 22.87 *per cent* in 2009-10 to 22.86 *per cent* in 2010-11. Under Social Services and Economic Services combined, the share of salaries increased from 33.14 *per cent* in 2009-10 to 36.80 *per cent* in 2010-11.

1.6 Analysis of Government Expenditure and Investments

The FRBM framework requires the State Government to keep its fiscal deficit (and borrowings) not only at low levels, but also to meet its capital expenditure and investment (including loans and advances) requirements. Further, the transition from a traditional rural agrarian society to a market-based and resource-intensive society requires the State Government to initiate measures that earn adequate returns on its investments, enable recovery of the cost of borrowed funds and to take requisite steps to infuse transparency in financial operations. In this section, a broad financial comparison and analysis of the State Government's investments and capital expenditure during the current year vis-à-vis the previous years are presented.

1.6.1 Incomplete projects

Blocking of funds on incomplete works including works stopped due to litigation impinge negatively on the quality of expenditure. Department-wise information pertaining to incomplete projects as on 31 March 2011 is given in **Table 1.13.** Altogether, 350 schemes/projects (estimated cost ₹ 2819.35 crore) were due for completion up to March 2011, but remained incomplete resulting in blocking of ₹ 1004.74 crore. In addition, in 17 such schemes/incomplete projects under Public Health Engineering (07), Road Construction Department (02) and Water

Resources Department (08), cost over runs to the extent of ₹ 15.14 crore above the original estimates were noticed as given in ***Appendix 1.8***.

Table 1.13: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department	No. of Incomplete Projects	Estimated cost	Cost over run		Progressive expenditure of March 2011
			Number	Amount	
Building Construction Department	39	798.59	-	-	247.67
Rural Works Department	09	29.57	-	-	8.64
Road Construction Department	51	702.21	02	3.23	127.07
Public Health Engineering Department	119	559.04	07	4.46	258.74
Water Resources Department	132	729.94	08	7.45	362.62
Total	**350**	**2819.35**	**17**	**15.14**	**1004.74**

(Source: State Finance Accounts of the respective years)

Non-completion of these projects/works within the stipulated time frame not only resulted in increase in cost etc. but also deprived the State of benefits for a long time.

1.6.2 Investments and returns

As of 31 March 2011, the State Government had invested ₹ 905.24 crore in Statutory Corporations, Government Companies, Joint Stock Companies, Co-operative Institutions and Local Bodies as indicated in **Table 1.14**.

Table-1.14: Return on Investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (₹ in crore)	821.10	828.68	832.18	856.18	905.24
Return (₹ in crore)	0.04	3.19	2.14	2.06	2.53
Return (*per cent*)	0.00	0.38	0.26	0.24	0.28
Average rate of interest on Government borrowing *(per cent)*	7.15	7.15	7.93	6.48	6.87
Difference between interest rate and return (*per cent*)	7.15	6.77	7.67	6.24	6.59

(Source: State Finance Accounts of the respective years)

The average return on these investments was 0.23 *per cent* in the last five years while the Government paid an average interest rate of 7.11 *per cent* on its borrowings during 2006-11.

While the Government investments increased by 10 *per* cent over a period of five years from 2006-07 to 2010-11, the returns from investments increased from ₹ 0.04 crore in 2006-07 to ₹ 2.53 crore in 2010-11. The percentage returns from investments also increased from zero in 2006-07 to 0.28 in 2010-11. The Government paid interest at an average rate of 7.15 to 6.87 *per cent* on its borrowings during 2006-11.

As per the ThFC report, all States were required to draw up a road map for winding up of non-working PSUs by March 2011. But no detailed plans in this regard were drawn up by the concerned departments.

1.6.3 Loans and advances by the State Government

In addition to investments in Co-operative Institutions/Societies, Government Corporations and Companies, the State Government has also been providing loans and advances to many institutions and organizations. **Table 1.15** presents the status of outstanding loans and advances and interest receipts vis-à-vis interest payments during the last three years**.**

Table-1.15: Average interest received on loans and advances by the State Government

(₹ in crore)

Amount of Loans/Interest Receipts/ Cost of Borrowings	2008-09	2009-10	2010-11
Opening balance	14128.10	14667.83	15551.42
Amount advanced during the year	551.05	896.79	1102.63
Amount repaid during the year	11.32	13.20	11.86
Closing Balance	**14667.83**	**15551.42**	**16642.19**
Of which outstanding balance for which terms and conditions have been settled			
Net addition	539.73	883.59	1090.77
Interest Receipts	304.57	353.27	237.96
Interest receipts as percentage of outstanding Loans and advances	2.08	2.27	1.43
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	6.83	6.28	6.87
Difference between interest payments and interest receipts (*per cent*)	4.75	4.01	5.44

(Source: State Finance Accounts of the respective years)

Total outstanding loans and advances as on 31 March 2011 was ₹ 16642 crore, against an outstanding amount of ₹ 15551 crore as on 31 March 2010. Interest received on the loans and advances was 1.43 *per cent* in 2010-11. Out of ₹ 1103 crore advanced during the year, ₹ 1087.77 crore was for Economic Services (₹ 834.42 crore for power projects and other ₹ 238.49 crore and ₹ 14.86 crore for Government servants).

1.6.4 Cash Balances and Investment of Cash balances

Table 1.16 depicts the cash balances and investments made by the Government out of the cash balances during the year.

Table-1.16: Cash Balances and Investment of Cash balances

(₹ in crore)

Particulars	As on 1 April 2010	As on 31 March 2011	Increase/ Decrease
Cash Balances	2291.13	2735.44	444.31
Investments from Cash Balances (a to d)	4347.04	2294.80	(-)2052.24
a. GOI Treasury Bills	0.00	0.00	0.00
b. GOI Securities	4342.39	2290.15	(-)2052.24
c. Securities of other State Government	4.65	4.65	0.00
d. Other Investments	0.00	0.00	0.00
Funds-wise Break-up of Investment from Earmarked balances (a to c)	280.10	440.10	(+)160
a. Famine Relief Fund	0.10*	0.10	0.00
b. Sinking Fund	280.00	440.00	(+)160
Interest Realized	327.48	222.08	(-)105.40

(Source: State Finance Accounts of the respective years)
***No increase, figures adopted by rounding of 0.0961**

Cash balances during the year increased from ₹ 2291.13 crore to ₹ 2735.44 crore. However, the investments out of cash balances decreased from ₹ 4347.04 crore to ₹ 2294.80 crore. The investments from earmarked balances increased by ₹ 160 crore from ₹ 280.10 crore on 1 April 2010 to ₹ 440.10 crore. Interest of ₹ 222.08 crore realized on investments during 2010-11 was lower by ₹ 105.40 crore (32 *per cent)* than the interest earned (₹ 327.48 crore) during 2009-10.

1.7 Assets and Liabilities

1.7.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. ***Appendix 1.9*** gives an abstract of such liabilities and assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. While the liabilities shown in this Appendix mainly consist of internal borrowings, loans and advances from GOI, receipts from the Public Account and Reserve Funds, the assets mainly comprise the capital outlay and loans and advances given by the Government and cash balances.

'Total liability' as defined in the FRBM Act, means the liabilities under the Consolidated Fund and the Public Account of the State and also includes borrowings by Public Sector Undertakings and special purpose vehicles and other equivalent instruments, including guarantees where the principal and/or interest are to be serviced out of the State budgets.

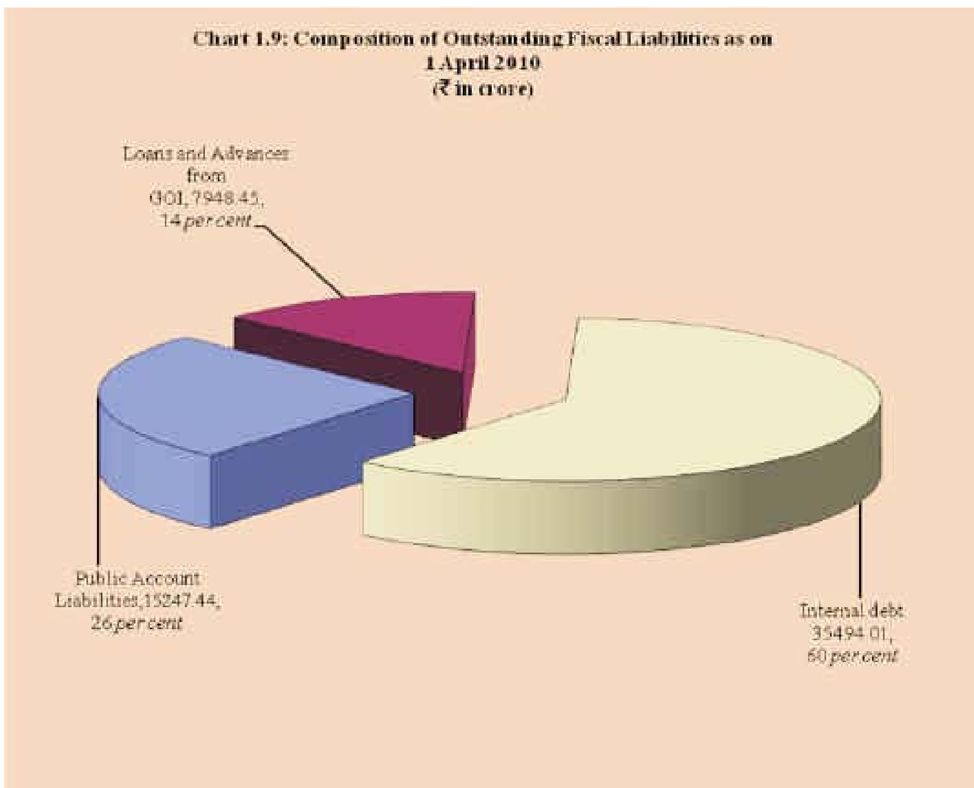
1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Table 1.17.** and the composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Chart 1.9** and **1.10.**

Table 1.17: Outstanding Fiscal Liabilities[7]

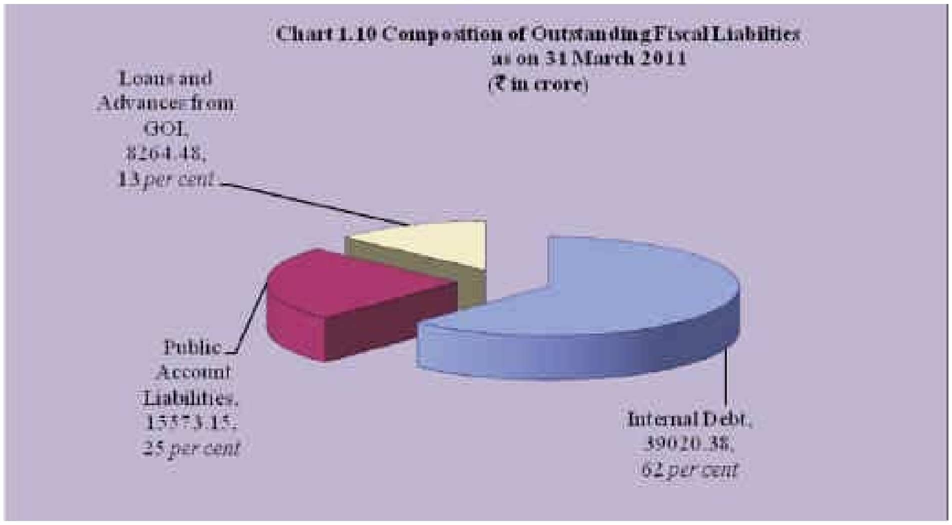
Year	2006-07	2007-08	2008-09	2009-10	2010-11
Amount (₹ in crore)	49089	50989	54977	58690	62858
Growth Rate	5.58	3.87	7.82	6.75	7.10
Ratio of fiscal liabilities to					
GSDP	0.475	0.429	0.365	0.335	0.295
Revenue receipts	212.66	180.75	166.69	165.20	141.15
Own resources	1080.3	908.57	750.44	601.33	579.07
Buoyancy ratio of fiscal liabilities to					
GSDP	0.24	0.26	0.29	0.41	0.33
Revenue receipts	0.19	0.17	0.46	0.87	0.28
Own resources	0.49	0.16	0.26	0.20	0.63

(Source: State Finance Accounts of the respective years)



(Source: State Finance Accounts, 2009-10)

[7] Market loan, Loans and advances from GOI, Loans from Small Saving Provident Fund etc and other obligation.



(Source: State Finance Accounts, 2010-11)

The overall fiscal liabilities of the State increased from ₹ 58690 crore in 2009-10 to ₹ 62858 crore in 2010-11**.** The growth rate was 7.10 *per cent* during 2010-11 over the previous year. The growth of fiscal liabilities increased from 6.75 *per cent* (2009-10) to 7.10 *per cent* (2010-11) and the ratio of fiscal liabilities to GSDP also decreased from 0.475 (2006-07) to 0.295 during the year 2010-11. The liabilities stood at 1.41 times the revenue receipts and 5.79 times the States' own resources at the end of 2010-11. The buoyancy of these liabilities with respect to GSDP during the year was 0.33, indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.33 *per cent (**Appendix 1.6**)*.

Further, the fiscal liabilities increased from ₹ 49089 crore in 2006-07 to ₹ 62858 crore in 2010-11. As on 31 March 2011, the outstanding balance in the Sinking Fund was ₹ 440 crore, including addition of ₹ 160 crore during 2010-11.

1.7.3 Status of Guarantees–Contingent liabilities

Guarantees are liabilities contingent on the Consolidate Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended. No law under Article 293 of the Constitution has been passed by the State legislature laying down the limit within which the Government may give guarantees on the security of the Consolidated Fund of the State.

As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table 1.18**.

Table-1.18: Guarantees given by the Government of Bihar

(₹ in crore)

Guarantees	2008-09	2009-10	2010-11
Maximum amount guaranteed	1547.73	1547.73	1549.03
Outstanding amount (Principal) of guarantees	704.24	898.83	587.96
Percentage of maximum amount guaranteed to total revenue receipts	4.69 (32981)	4.36 (35527)	3.48 (44532)
Figures in brackets indicate revenue receipts			

(Source: State Finance Accounts of the respective years)

No amount was paid by the Government towards guarantees during 2010-11. The outstanding amount of ₹ 588 crore of guarantees, as on 31 March 2011, was in respect of the Bihar State Electricity Board (₹ 195 crore), the Bihar State Financial Corporation (₹ 127 crore) and others (₹ 266 crore). Further, the State Government had not yet established a guarantee redemption fund by charging guarantee fees for the discharge of any liability that could arise in future.

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze the various indicators that determine the debt sustainability[8] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[9]; sufficiency of non-debt receipts[10]; net availability of borrowed funds[11], burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of the State Government securities. **Table 1.19** analysis the debt sustainability of the State, according to these indicators for the period of five years beginning from 2006-07.

Table 1.19: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt Stabilisation (Quantum Spread plus Primary Surplus)	8396.51	5925.05	10729.53	-226.39	9449.84
Sufficiency of non-debt receipts (Resource Gap)	679.00	1318.00	-804.00	-1524	3372
Net Availability of borrowed funds	-692.00	-1496.00	93	28	71
Burden of Interest Payments (IP/RR Ratio)	0.15	0.13	0.11	0.10	0.10
Maturity Profile of State Debt (in years)					
Zero to one year					723 (4)
One to three years					3173 (18)
Three to five years					2700 (15)
Five to seven years					895 (5)
More than seven years					10089 (58)
Total market borrowing					17580

(Source: State Finance Accounts of the respective years)

[8] Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficit should match the increase in the capacity to service the debt.

[9] A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or the cost of public borrowings, the debt-GSDP ratio is likely to be stable, provided balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate-interest rate) and quantum spread (Debt multiplied by rate spread), the debt sustainability condition states that if the quantum spread together with primary deficit is zero, the debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative. The debt-GSDP ratio would be rising and in case it is positive. The ratio would eventually start falling.

[10] Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and incremental expenditure.

[11] Defined as the ratio of the debt redemption (Principal plus Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

Out of the four indicators of debt sustainability, the State had fared well on three indicators. The position of each indicator was as under:

If the quantum spread together with primary deficit is zero, the debt-GSDP ratio would be constant or debt would be stabilized eventually. The quantum spread together with the primary deficit increased from (-) ₹ 226.39 crore in 2009-10 to ₹ 9449.84 crore in 2010-11 indicating that the sustainability of the debt has increased. However, the State needs to step up its resources mobilization as well as reduce its unproductive expenditure to maintain debt stability.

Net availability of borrowed funds is defined as the ratio of debt redemption (principal plus interest payments) to total debt receipts and indicates the extent to which debt receipts are used in debt redemption.

As per Statement No.6 of Finance Accounts for the year 2010-11, the Government, during 2010-11, raised internal debt of ₹ 5251 crore, loans and advances from GOI of ₹ 782 crore and other obligations of ₹ 7658 crore and repaid internal debts of ₹ 1725 crore, loans and advances from GOI of ₹ 466 crore and discharged other obligations worth ₹ 7332 crore. Consequently, the net availability of borrowed funds was only ₹ 71 crore during the year.

The maturity profile of the State's debt as per **Table 1.19** indicated that nearly 37 *per cent* of the total debts were repayable within the next five years, while the remaining 63 *per cent* were payable thereafter. Hence the State was liable to repay debts of ₹ 2700 crore during the period 2014-16, ₹ 895 crore during 2016-17 and ₹ 10089 crore during 2017-18, for which it will have to improve its debt sustainability to generate funds for repayment of loans in the coming years. A well-planned debt repayment strategy will have to be worked out by the Government to ensure that no additional borrowings, which mature in these critical years, are made.

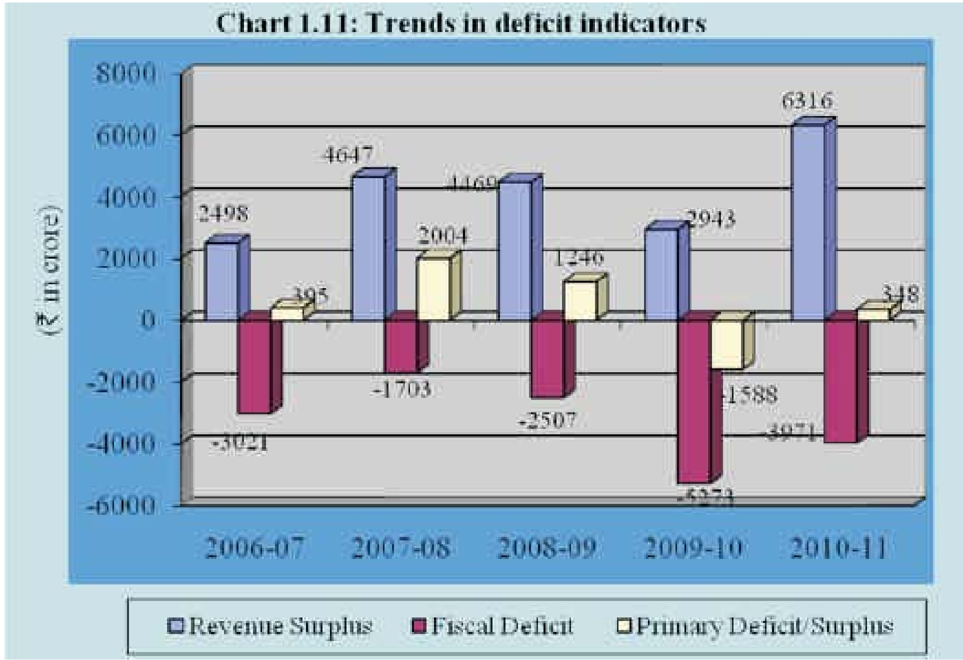
All the above-mentioned paragraphs lead to the conclusion that unless borrowings are restricted, the State will face serious problem in debt servicing.

1.9 Fiscal Imbalances

Three key fiscal parameters i.e. revenue, fiscal and primary deficits, indicate the extent of overall fiscal imbalances in the finances of the Government during a specified period. The deficit in the Government accounts represents the gap between its resources and commitments. The nature 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 are raised and applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-a-vis* targets set under FRBM Act/Rules for the financial year 2010-11.

1.9.1 *Trends of Deficits*

The State achieved revenue surplus since 2006-07. **Chart 1.11** indicates that while the actual surplus decreased by ₹ 1526 crore during 2009-10, it increased by ₹ 3373 crore in 2010-11 compared to the previous year.



(Source: State Finance Accounts of the respective years)

Table 1.20: Trends in deficit indicators over the period 2006-11

Year	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue surplus/GSDP	0.024	0.039	0.029	0.017	0.030
Fiscal deficit/GSDP	0.029	0.014	0.016	0.030	0.018
Primary surplus/GSDP	0.038	0.017	0.008	0.009	0.016

(Source: State Finance Accounts of the respective years)

During the year, the revenue surplus increased by ₹ 3373 crore due to increase of ₹ 9005 crore in revenue receipts. The State achieved the fiscal deficit target as laid down in its FRBM Act and projections recommended by the ThFC's during 2010-11. The fiscal deficit decreased from ₹ 5273 crore in 2009-10 to ₹ 3971 crore in 2010-11 and its ratio to GSDP decreased from 0.030 to 0.018 respectively as indicated in **Table 1.20**. Further, the primary deficit of ₹ 1588 crore (2009-10) turned into primary surplus of ₹ 348 crore during the year **(*Appendix 1.6)***.

1.9.2 *Components of Fiscal Deficit and its Financing Pattern*

The financing pattern of fiscal deficit has undergone a composite shift. Receipts and disbursements under the components of financing the deficit during 2010-11 are given in **Table 1.21**

Table1.21: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Composition of Fiscal Deficit		**(-)3020.91**	**(-)1703.46**	**(-)2506.97**	**(-)5273.01**	**(-)3971**
1	Revenue Deficit/Revenue Surplus	2498.14	4646.85	4469.11	2942.66	6316
2	Net Capital Expenditure	(-)5211.13	(-)6103.78	(-)6436.35	(-)7332.09	(-)9196
3	Net Loans and Advances	(-)307.92	(-)246.53	(-)539.73	(-)883.58	(-)1091
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	(-)412.72	(-)779.56	3757.12	2501.91	1707.78
2	Loans from GOI	(-)314.15	39.75	(-)278.81	(-)49.35	316.03
3	Special Securities Issued to NSSF	2040.69	661.59	529.08	1472.52	1533.39
4	Loans from Financial Institutions	(-)314.15	58.26	238.22	226.32	285.20
5	Small Savings, PF etc.	395.05	268.40	144.41	(-)262.86	252.70
6	Deposits and Advances	869.48	1700.04	(-)690.52	(-)134.15	50.94
7	Suspense and Misc	583.65	(-)2190.35	395.96	(-)290.89	1830.68
8	Remittances	(-)63.14	618.30	(-)221.57	(-)54.82	79.96
9	Others	nil	(-)44.60	293.24	(-)41.69	23.72
10	**Overall Surplus/Deficit**	**97.01**	**-1371.62**	**1660.14**	**-1906.02**	**6080.37**
11	Increase (-) decrease (+) in cash balance#					-2109.39
12	**Gross Fiscal Deficit**					**3971**

(Source: State Finance Accounts of the respective years)

**** All these figures are net of disbursements/outflows during the year.***

 # Cash balance (Deposit with Reserve bank and remittance in treasury).

Table 1.22: Receipts and Disbursements under components financing the fiscal deficit during 2010-11

(₹ in crore)

Sl. No.	Particulars	Receipts	Disbursements	Net
1	Market Borrowings	2600.00	892.22	1707.78
2	Loans from GOI	781.53	465.50	316.03
3	Special Securities Issued to National Small Savings Fund	2015.69	482.30	1533.39
4	Loans from Financial Institutions	635.20	350.00	285.20
5	Small Savings, PF etc.	838.84	586.14	252.70
6	Deposits and Advances	6624.39	6573.45	50.94
7	Reserve Funds	243.73	220.01	23.72
8	Suspense and Miscellaneous	123825.29	121994.61	1830.68
9	Remittances	9279.87	9199.91	79.96
10	**Overall surplus (-) deficit (+)**			**6080.37**
11	Increase (-) decrease (+) in cash balance			-2109.39
12	**Gross Fiscal Deficit**			**3971**

(Source: State Finance Accounts of the respective year.)

The fiscal deficit, which represents the borrowings of the Government and its resource gap decreased from ₹ 5273 crore in 2009-10 to ₹ 3971 crore in 2010-11.

Table 1.21 above indicates the decomposition of fiscal deficit of various borrowings resorted to by the State to meet its requirement of funds over and above the revenue and non-debt receipts.

During the period 2006-07 to 2010-11, there was a steady increase in the net capital expenditure from ₹ 5211 to ₹ 9196 crore (76.5 *per cent*) leading to an overall fiscal deficit situation. This decreased the fiscal deficit as a percentage of the net capital expenditure from 58 during 2006-07 to 43 in 2010-11.

Net loans and advances were significant components of fiscal deficit expenditure contributing as much as 10.19 *per cent* and 27.47 *per cent* during 2006-07 and 2010-11 respectively.

During 2009-10, the fiscal deficit which stood at 72 *per cent* of capital expenditure reduced to 43 *per cent* of capital expenditure during 2010-11. During the year 2006-07, the fiscal deficit was mainly financed by special securities issued to National Small Savings Funds, Deposits and Advances and Suspense and Miscellaneous whereas during 2010-11, the fiscal deficit was mainly financed by market borrowings and special securities issued to NSSF.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.23)** would indicate the extent to which the deficit was on account of enhancement in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

Table 1.23: Primary deficit/surplus – bifurcation of factors

(₹ in crore)

Year	Non-debt receipts[12]	Primary Revenue Expenditure[13]	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) /surplus (+)	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2006-07	23090	17169	5211 (23)	315	22695	5921	+395
2007-08	28236	19856	6104 (23)	272	26232	8380	+2004
2008-09	32992	24759	6436 (20)	551	31746	8233	+1246
2009-10	35540	28899	7332 (21)	897	37128	6641	-1588
2010-11	44544	33897	9196(4)	1103	44196	10647	+348

(Source: State Finance Accounts of the respective years.)

[12] Non debt receipts considered here is the aggregate of Revenue receipts and recovery of loans and advances.
[13] Primary revenue expenditure is the difference between revenue expenditure and interest payments.

The Government had a primary revenue surplus with increasing trends. It increased from ₹ 5921 crore in 2006-07 to ₹ 8233 crore in 2008-09, but decreased to ₹ 6641 crore in 2009-10 and finally increased to ₹ 10647 crore in 2010-11. This was due to increase in primary expenditure (which includes primary revenue expenditure, capital expenditure and loans and advances) from ₹ 22695 crore in 2006-07 to ₹ 44196 crore in 2010-11. The details indicate that non-debt receipts were enough to meet the primary revenue expenditure and part of these receipts were utilized to meet capital expenditure. The State was experiencing primary surplus since 2008-09 which stood at ₹ 348 crore at the end of 2010-11.

1.10 Conclusion

Pattern of Revenue and Expenditure: Revenue receipts increased by 25 *per cent* during the year due to increase in tax revenue by 22 *per cent*. Collection of tax revenue was more than 20 *per cent* of the ThFC projections and fell short by seven *per cent* from Budget Estimates during the year. Non-tax revenue which declined by 41 *per cent* during the year, fell short of the 40 *per cent* and 18 *per cent* with respect to the assessment made by ThFC and the Budget Estimates respectively.

Revenue expenditure constituted 79 *per cent* of the total expenditure during the year and increased by 17 *per cent* over that of the previous year. Non-Plan Revenue Expenditure was 71 *per cent* of the revenue expenditure during 2010-11. The NPRE component at ₹ 27316 crore was more than the assessment of the ThFC for the State(₹ 24787 crore) but less than the Budget Estimates (₹ 29863 crore). Within the Non-Plan revenue expenditure, committed expenditure i.e. salaries, pension liabilities, interest payments and subsidies constituted about 82 *per cent* during 2010-11.

Capital expenditure which constituted 19 *per cent* of the total expenditure, increased during 2010-11 by 25 *per cent* over 2009-10. Financial assistance to local bodies and other institution (₹ 4622 crore) which constituted 12 *per cent* of revenue expenditure during 2010-11, decreased by six *per cent* over 2009-10.

Review of Government investments: The average return on the Government's investments in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative institutions and local bodies varied between zero *per cent* to 0.28 *per* cent in the last five years, while the Government paid on average interest of 7.15 *per cent* to 6.87 *per* cent on their investments during 2006-11.

Arrears of revenue: The arrears of revenue as on 31 March 2011 in respect of the principal heads of revenue (as reported by seven departments) was ₹ 1198.24 crore, of which ₹ 598.99 crore was outstanding for more than five years.

Incomplete projects: 350 projects of ₹ 1005 crore which were scheduled for completion by 31 March 2011, were still lying incomplete. Time overruns of incomplete projects will have to be reduced so that the people of Bihar benefit from these sunk costs.

Oversight of funds transferred directly from the GOI to the State implementing agencies: GOI directly transferred ₹ 10309 crore to State implementing agencies during the year, which was more by ₹ 5127 crore (99 *per cent*) over the previous year. As the funds were not routed through the Government accounts, the direct transfer of funds from GOI to State implementing agencies ran the risk of oversight of maintenance of accounts and utilization of funds by these agencies. In the absence of uniform accounting practices followed by all these agencies, proper documentation was not in place and timely reporting about the status of expenditure by these implementing agencies was not being done.

Cash balance: The cash balance of the State was ₹ 2291 crore in 2009-10 and ₹ 2735 crore in 2010-11.Therefore the cash balance at the end of the year increased by 444 crore (19 *per cent*) over that of the previous year.

1.11 Recommendations

The Government may:

- strengthen its tax collection machinery so that arrears of revenue are reduced.
- take steps to ensure better value of money for investments. Projects which are justified on account of low financial but high socio-economic returns may be indentified and prioritized with full justification for channeling high-cost borrowings there.
- review the status of State Public Sector Undertakings and work out a revival strategy for those undertakings which can be made viable. Undertakings which are not likely to be viable may be closed down.
- ensure proper accounting of the funds transferred directly to State implementing agencies and also ensure that the updated information validated by the State Government as well as the Accountant General (A&E), Bihar for proper monitoring of the expenditure incurred by the implementing agencies.