

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. The State of Bihar has 38 districts.

Economy of Bihar is primarily agrarian and the State does not possess any significant mineral wealth. As indicated in *Appendix 1.1*, the density of population has increased from 881 persons per sq. km (2001) to 1102 persons per sq. km (2011). Bihar has higher poverty levels as compared to the all-India average. However, the State has shown higher economic growth for the period 2002-03 to 2011-12 as the compound annual growth rate (CAGR) of its Gross State Domestic Product has been 14.97 per cent as compared to 14.46 per cent amongst the General Category States¹. During this period, its population also grew by 17.89 per cent (highest among general category states) against the average growth² of 13.90 per cent in General Category States. The per capita income CAGR for the period 2002-03 to 2011-12 in Bihar (13.10 per cent) has been slightly higher than that of the General Category States (13.09 per cent).

1.1 Introduction

This chapter 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*. This analysis has been made based on the Finance Accounts of the State and information obtained from the State Government. In order to comply with the recommendation of the Thirteenth Finance Commission (ThFC), the State Government enacted the Bihar Fiscal Responsibility and Budget Management (Amendment) Act, 2010 as given in *Appendix 1.3 Part A*. The methodology adopted for assessment of the fiscal position and norms/ceilings prescribed by the FRBM (Amendment) Act, 2010 are given in *Appendix 1.3 Part B*.

1.1.1 Summary of current year's fiscal transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2011-12) *vis-à-vis* the previous year. The details of receipts and disbursements and the overall fiscal position during the current year are annexed at *Appendix 1.4*.

¹ States other than 11 states termed as Special Category States (Arunachal Pradesh, Assam, Jammu & Kashmir, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand).

² The all India average of General Category States has been calculated on the basis of figures provided by 16 General Category States (excluding Delhi, Goa and Puducherry).

Table 1.1: Summary of Current Year's Fiscal Transactions

(₹ in crore)

Receipts	2010-11	2011-12	Disbursements	2010-11	2011-12		
Section-A: Revenue					Non-Plan	Plan	Total
Revenue Receipts	44532.32	51320.17	Revenue Expenditure	38215.92	34012.66	12486.83	46499.49
Tax revenue	9869.85	12612.10	General services	15286.97	17569.44	160.28	17729.72
Non-tax revenue	985.53	889.86	Social services	15089.42	9523.52	9205.26	18728.78
Share of Union Taxes/Duties	23978.38	27935.23	Economic services	7836.28	6916.53	3121.29	10037.82
Grants from Government of India	9698.56	9882.98	Grants-in-aid and Contributions	3.25	3.17	-	3.17
Section-B: Capital							
Misc. Capital Receipts	0.00	0.00	Capital Expenditure	9195.94	39.59	8812.42	8852.01
Recoveries of Loans and Advances	11.86	22.51	Loans and Advances disbursed	1102.63	220.72	1685.36	1906.08
Public debt receipts*	6032.42	6627.96	Repayment of Public Debt*	2190.03	-	-	2922.46
Inter State Settlement Receipts	0.00	75.41	Inter State Settlement Payments	0.00	-	-	1.39
Contingency Fund	1150.00	800.00	Contingency Fund	1150.00	-	-	800.00
Public Account receipts	17321.25	22302.61	Public Account disbursements	16749.02	-	-	21393.22
Opening Cash Balance	2291.13	2735.44	Closing Cash Balance	2735.44	-	-	1509.45
Total	71338.98	83884.10	Total	71338.98			83884.10

*Excluding net transactions under ways and means advances and overdraft.

(Source: State Finance Accounts of the respective years)

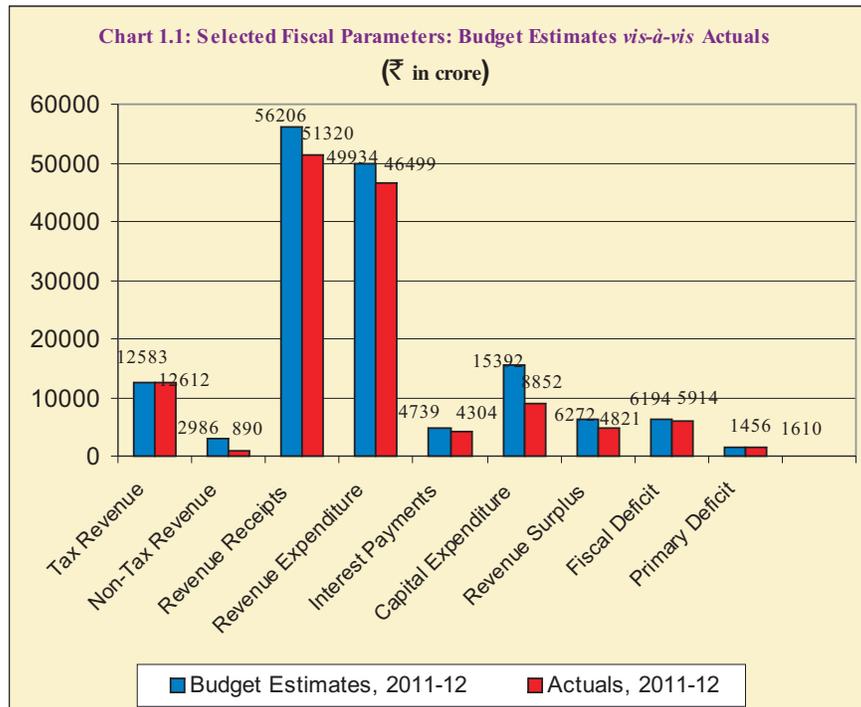
The significant changes during 2011-12 over the previous year are given below:

- Revenue receipts during the year increased by 15.24 per cent (₹ 6787.85 crore). The increase was mainly due to increase in own tax revenue by 27.78 per cent (₹ 2742.25 crore) and State's share of Union taxes and duties by 16.50 per cent (₹ 3956.85 crore).
- State's own tax revenue exceeded the Budget estimate (₹ 12582.90 crore) and ThFC assessment (₹ 9302.67 crore) by 0.23 per cent (₹ 29.20 crore) and 35.58 per cent (₹ 3309.43 crore) respectively.
- Non-tax revenue decreased by 9.71 per cent (₹ 95.67 crore) primarily owing to recovery of Debt Waiver of ₹ 384.93 crore granted by Government of India (GOI) to Government of Bihar in 2009-10. The Non-tax revenue was also 70.20 per cent (₹ 2096.08 crore) below the Budget estimate (₹ 2985.94 crore) and 49.83 per cent (₹ 883.67 crore) lower than assessment of ThFC (₹ 1773.53 crore).
- Revenue expenditure during the year increased by 21.68 per cent (₹ 8283.57 crore). The increase was mainly due to the increase in expenditure on General Services by 15.98 per cent (₹ 2442.75 crore), Social Services by 24.12 per cent (₹ 3639.36 crore) and Economic Services by 28.09 per cent (₹ 2201.54 crore). However, Revenue expenditure during the year was 6.88 per cent (₹ 3434.07 crore) less than the budget estimates (₹ 49933.56 crore).
- During the year the Non-Plan expenditure (revenue and capital) increased by 24.45 per cent (₹ 6690.15 crore) and the Plan expenditure increased by 6.23 per cent (₹ 1249.49 crore).

- Recoveries of loans and advances increased by 89.80 *per cent* (₹ 10.65 crore). Similarly disbursements of loans and advances increased by 72.87 *per cent* (₹ 803.45 crore). This resulted in a net increase in disbursements by ₹ 792.80 crore.
- Capital expenditure on asset creation decreased by 3.74 *per cent* (₹ 343.93 crore) during the year.
- Further, 89.63 *per cent* of the total expenditure was made from revenue receipts and the remaining from capital receipts and borrowed funds.
- Public Account receipts increased by 28.76 *per cent* (₹ 4981.36 crore) whereas disbursements increased by 27.73 *per cent* (₹ 4644.20 crore). This resulted in a net increase in the Public Account by ₹ 337.16 crore .
- The receipts under Public Debt increased by 9.87 *per cent* (₹ 595.44 crore) whereas its repayment increased by 33.44 *per cent* (₹ 732.43 crore) resulting into net decrease in Public Debt by ₹ 136.89 crore.
- The net impact of these transactions led to a decrease by 44.82 *per cent* (₹ 1225.99 crore) in the cash balance at the end of the year.

1.1.2 Budget Estimates and Actuals

Chart-1.1 presents the budget estimates and actuals for some important fiscal parameters. The details of actuals vis-à-vis budget estimates are given in **Appendix 1.5**.



(Source: Budget and State Finance Accounts of the year 2011-12)

The above chart depicts that during 2011-12 following variations took place as discussed below:

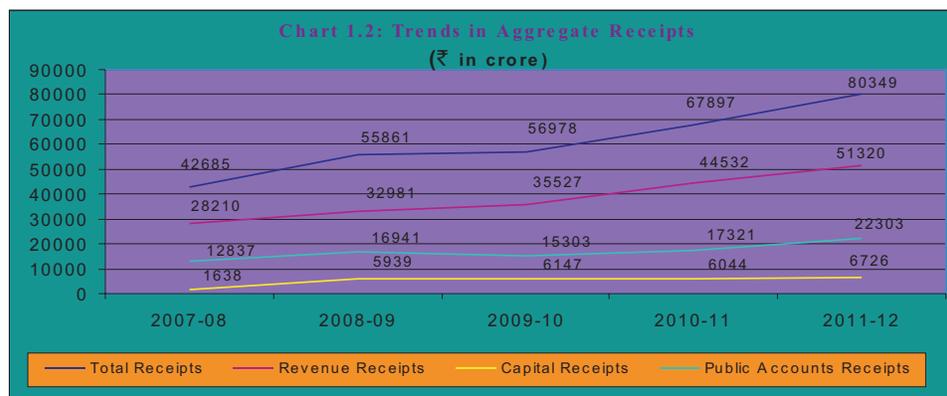
1. Revenue receipts were lower than the projections made in the BE by ₹ 4886 crore mainly as a result of decrease in non-tax revenue as compared to BE by ₹ 2096 crore (70 per cent). However, the tax revenue increased by ₹ 29 crore (0.23 per cent).
2. Revenue expenditure and capital expenditure were less than the BE by ₹ 3435 crore (6.87 per cent) and ₹ 6540 crore (42.48 per cent) respectively. The variation in revenue expenditure was due to less expenditure of ₹ 2133.37 crore under Social services, ₹ 775.39 crore under General services and ₹ 524.36 crore under Economic services which was less by ₹ 0.95 crore under Grants-in-aid and contributions.
3. Revenue surplus was less than the BE by ₹ 1451 crore (23.13 per cent) mainly due to decrease in revenue receipts by ₹ 4886 crore (8.69 per cent) than the projections made in the BE and decrease of ₹ 3435 crore in revenue expenditure over the projection made in the BE.
4. Fiscal deficit was less by ₹ 280 crore over the projections made in the budget estimates (₹ 6194 crore) mainly due to decrease in revenue surplus by ₹ 1451 crore than that provisioned in the BE.
5. Primary deficit increased by ₹ 154 crore over the projections made in the budget estimates (₹ 1456 crore).

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

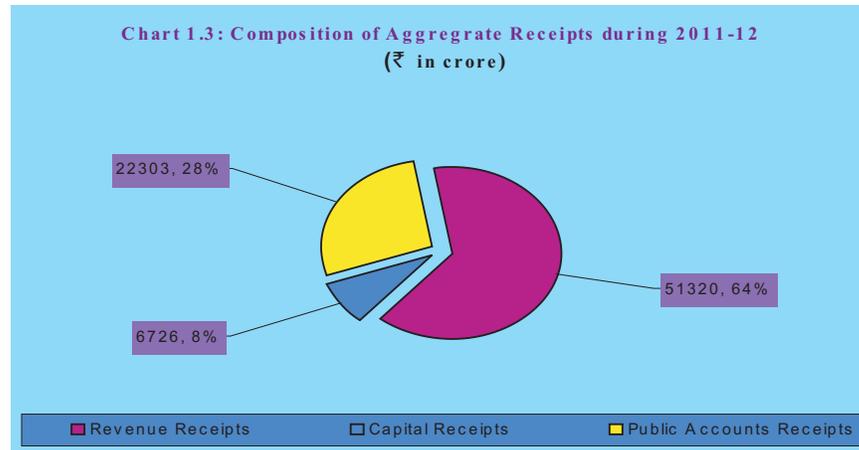
Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State’s share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous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

Chart 1.2 depicts the trend of receipts during 2007-12 and **Chart 1.3** indicates the composition of these receipts during 2011-12.



Capital receipts include Public Debt Receipts, Recovery of Loans and Advances and Inter State Settlement.

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



(Source: State Finance Accounts for the year 2011-12).

A perusal of **Chart Nos. 1.2** and **1.3** revealed that:

1. Total receipts increased by 88 per cent (₹ 37664 crore) during 2007-12.
2. Revenue receipts increased by 82 per cent (₹ 23110 crore) during 2007-12 whereas capital receipts increased by 311 per cent (₹ 5088 crore) during the same period.
3. Public account receipts increased by 74 per cent (₹ 9466 crore) during 2007-12.

Further scrutiny of Finance Accounts of the State revealed that major increase in revenue receipts during 2011-12 was mainly due to increase in Taxes on Sales, Trade etc. by 64.06 per cent (₹ 2919 crore), share of Corporation Tax by 17.32 per cent (₹ 1623 crore), share of Service Tax by 39.45 per cent (₹ 943 crore), State Excise by 30.04 per cent (₹ 458 crore), Interest Receipts by 141.09 per cent (₹ 336 crore) etc.

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 the State implementing agencies³ for the implementation of various schemes/programmes in social and economic sectors. These funds are not routed through the State budget/State treasury system and therefore the annual finance 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 have not taken these funds into account.

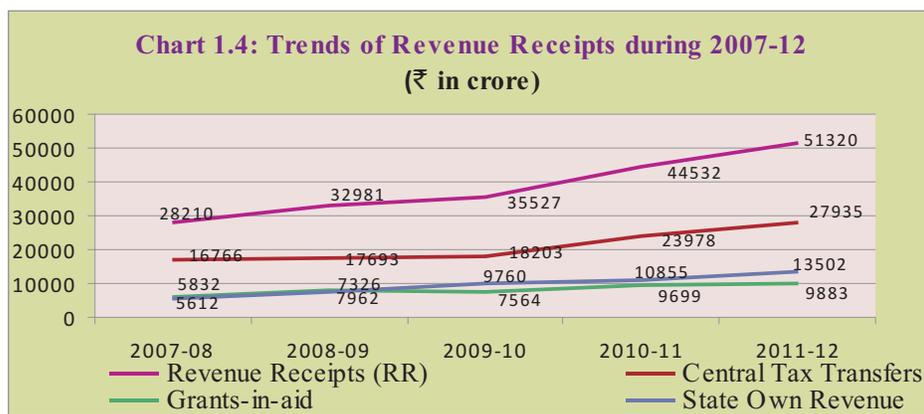
Direct transfer of funds from the GOI to State implementing agencies implies the presence of an adequate control mechanism for effective oversight of utilisation of funds and the absence of which could impact and inhibit the Fiscal Responsibility and Budget Management Act's requirement of transparency in fiscal operations and accountability. To present a holistic picture on the availability of aggregate resources, funds directly transferred to State Implementing Agencies are presented in **Appendix 1.6**.

³ State implementing agencies include any organisation / institution including non-Government organisation which is authorised by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State implementing society for Sarva Shiksha Abhiyan, State Health Society for National Rural Health Mission, etc.

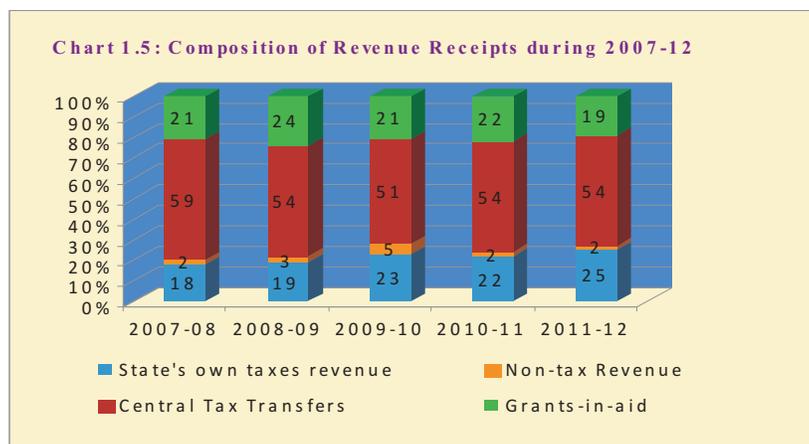
During 2011-12 the Government of India directly transferred ₹ 8958 crore to the State implementing agencies which was 13 *per cent* less than the previous year. While the major recipients were Bihar Education Project Council (₹ 1851 crore i.e. 21 *per cent*), District Rural Development Agencies (₹ 3575 crore i.e. 40 *per cent*) and Registered Societies under Pradhan Mantri Gram Sadak Yojna (₹ 3196 crore i.e. 36 *per cent*), in the current year major decrease in transfer of fund was noticed in case of District Rural Development Agencies (₹ 944 crore), Registered Societies under Pradhan Mantri Gram Sadak Yojna (₹ 263 crore) and Bihar Education Project Council (₹ 197 crore).

1.3 Revenue Receipts

Statement-11 of the Finance Accounts states the revenue receipts of the Government. The revenue receipts consist of own tax and non-tax revenue, central tax transfers and grants-in-aid from the Government of India. The trends and composition of revenue receipts over the period 2007-12 are presented in *Appendix 1.7* and in *Charts 1.4* and *1.5* respectively.



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



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

The charts above indicate the following:

- The revenue receipts increased by 81.92 *per cent* (₹ 23110 crore) during the period 2007-12. A major contributor to this increase was the State's own tax revenue share of which increased from 18 *per cent* in 2007-08 to 25 *per cent* in 2011-12.

- The share of Grants-in-aid (GIA) from the Government of India decreased from 21 *per cent* in 2007-08 to 19 *per cent* in 2011-12. The share of Central Tax Transfer (CTT) also decreased from 59 *per cent* in 2007-08 to 54 *per cent* in 2011-12.
- Non-tax revenue remained at two *per cent* of Revenue Receipts during 2007-08 which increased to three *per cent* and five *per cent* during 2008-09 and 2009-10 respectively but its share again came down to two *per cent* during 2010-12.

The trends of revenue receipts relative to GSDP are presented in **Table 1.2**.

Table 1.2: Trends in Revenue Receipts relative to GSDP

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	28210	32981	35527	44532	51320
Rate of growth of RR (<i>per cent</i>)	22.21	16.91	7.72	25.35	15.24
State's own tax	5086	6173	8090	9870	12612
Rate of growth of State's own tax (<i>per cent</i>)	26.11	21.37	31.05	22.00	27.78
GSDP (₹ in crore)	118923	151650	177537	217814	262230
Rate of growth of GSDP	14.88	27.52	17.07	22.69	20.39
RR/GSDP (<i>per cent</i>)	23.72	21.75	20.01	20.44	19.57
Buoyancy Ratios⁴					
Revenue Buoyancy w.r.t. GSDP	1.49	0.61	0.45	1.12	0.75
State's own tax buoyancy w.r.t. GSDP	1.75	0.78	1.82	0.97	1.36

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

The growth rate of revenue receipts of the State was in double digits during the period 2007-12 except 2009-10 when it declined from 16.91 *per cent* in 2008-09 to 7.72 *per cent* in 2009-10. It however picked up again to 25.35 *per cent* in 2010-11 and finally came down to 15.24 *per cent* in 2011-12.

The State's own-tax buoyancy with reference to GSDP decreased from 1.75 *per cent* in 2007-08 to 1.36 *per cent* in 2011-12 with intermediate year variations.

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.

The State's own tax and non-tax revenues (NTR) for the year 2011-12 *vis-a-vis* assessment made by ThFC and State Government Budget estimate are given in **Table 1.3** below:

Table 1.3 Assessment/Projection and Actual figure

	(₹ in crore)		
	ThFC Assessment	Budget projections	Actuals
Tax revenue	9303	12583	12612
Non-tax revenue	1774	2986	890

(Source: State Finance Accounts, Budget and ThFC figures).

Though the State's tax revenue during 2011-12 exceeded the ThFC assessment by ₹ 3309 crore and was more than the budget estimates by ₹ 29 crore, the non-tax revenue was significantly less than the assessment of the ThFC and the State's budget estimates by ₹ 884 crore and ₹ 2096 crore respectively which indicated

⁴ 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*.

unrealistic budget projections of the State. The NTR collections during 2011-12 was less than that of the previous year also by ₹ 95 crore, primarily owing to recovery of Debt Waiver of ₹ 384.93 crore granted to Government of Bihar in 2009-10 by the Central Government. Non-payment of the pension liabilities of the pre-reorganisation period by the Government of Jharkhand (₹ 7808.45 crore) also resulted in lower non tax revenues of the State.

1.3.1.1 Tax Revenues

The tax revenues of the State increased by 148 per cent (from ₹ 5086 crore to ₹ 12612 crore) during 2007-12 . Major Components of increase are shown in Table 1.4.

Table 1.4: Major Component of increase in Tax Revenues during 2007-12

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Taxes on Sales, Trade, etc.	2535	3016	3839	4557	7476
Rate of growth (per cent)	22	19	27	19	64
State Excise	525	679	1082	1523	1981
Rate of growth (per cent)	37	29	59	41	30
Stamps and Registration	654	716	998	1099	1480
Rate of growth (per cent)	44	10	39	10	35
Taxes on Vehicles	273	298	345	455	569
Rate of growth (per cent)	51	10	16	32	25

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

Appendix 1.7 presents the time series data on the State government finances. A perusal of the components of tax revenue in the Appendix reveals that:

- The revenue from taxes on sales, trade etc comprised the major share of tax revenue and ranged from 50 per cent in 2007-08 to 59 per cent 2011-12.
- The share of Stamps and Registration decreased from 13 per cent in 2007-08 to 12 per cent in 2011-12.
- The share of Taxes on vehicles also decreased from five per cent in 2007-08 to four per cent in 2011-12 respectively.
- The share of State excise increased from 10 per cent in 2007-08 to 16 per cent in 2011-12.

1.3.1.2 Cost of Tax Collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and percentage of such expenditure to the gross collection during the years 2009-10 to 2011-12 along with the all India average for the relevant previous years are as mentioned in Table 1.5 below:

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 percentage for the previous years
1	VAT/ Sales Tax	2009-10	5541.00	48.84	0.88	0.88
		2010-11	6653.37	57.23	0.86	0.96
		2011-12	8414.43	66.17	0.79	0.75
2	State Excise	2009-10	1081.68	44.02	4.07	3.66
		2010-11	1523.35	37.65	2.47	3.64
		2011-12	1980.98	41.24	2.08	3.05
3	Stamp duty and Registration fee	2009-10	997.90	45.90	4.60	2.77
		2010-11	1098.68	46.58	4.24	2.47
		2011-12	1480.07	43.10	2.91	1.60

Sl. No.	Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India percentage for the previous years
4	Taxes on Vehicles	2009-10	345.13	10.41	3.02	2.93
		2010-11	455.43	16.92	3.72	3.07
		2011-12	569.13	22.31	3.92	3.71

(Source: Information furnished by the Revenue Audit wing of the PAG (Audit).

It can be seen from the above table that the percentage of cost of collection in respect of Stamp duty and Registration fees and Taxes on Vehicles during 2009-12 in the State was higher than the all India average cost of collection

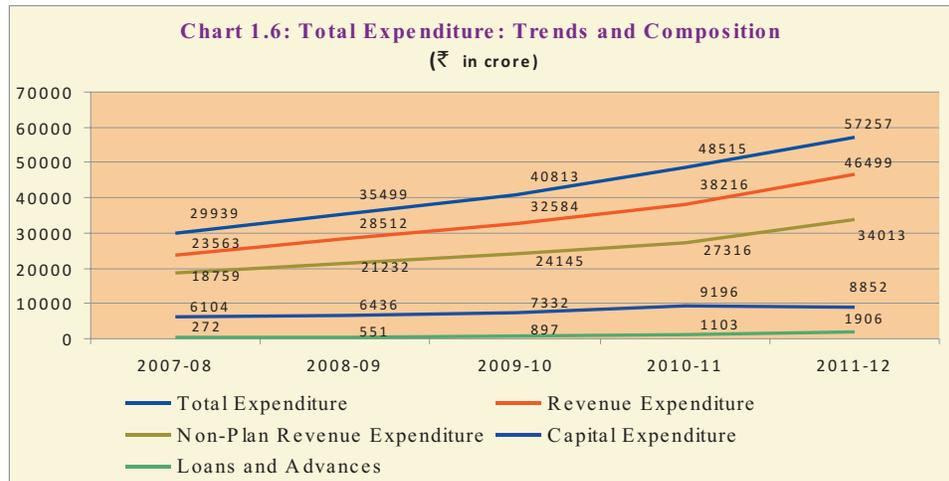
It is recommended that the Government should analyse the high cost of collection and take appropriate measures in this regard.

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 frame work 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 fiscal corrections and consolidation process at the State level is not at the cost of expenditure, especially directed towards development and social sectors.

1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2007-2012):



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

The total expenditure comprising revenue expenditure, capital expenditure and loans and advances, increased from ₹ 29939 crore in 2007-08 to ₹ 57257 crore in 2011-12. The increase of ₹ 8742 crore in total expenditure in 2011-12 over the previous year was mainly due to increase of ₹ 8283 crore (22 per cent) in revenue expenditure and ₹ 803 crore (73 per cent) in loans and advances which was offset by decrease of ₹ 344 crore (four per cent) in capital expenditure. The growth rate of total expenditure ranged between 15 and 19 per cent during 2007-12. The growth rate of total expenditure also decreased from 19 per cent in 2010-11 to 18 per cent in 2011-12. The total expenditure was around 22 per cent of GSDP during 2010-11 as well as in 2011-12.

The total expenditure and its composition during the years 2007-08 to 2011-12 are given below in Table-1.6.

Table 1.6: Total expenditure and its composition

Description	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Total expenditure	29939	35499	40813	48515	57257
Rate of growth	14.66	18.57	14.97	18.87	18.02
Revenue expenditure (Percentage to Total expenditure)	23563 (79)	28512 (80)	32584 (80)	38216 (79)	46499 (81)
Of which, non plan revenue expenditure	18759	21232	24145	27316	34013
Capital expenditure (Percentage to Total expenditure)	6104 (20)	6436 (18)	7332 (18)	9196 (19)	8852 (15)
Loans and advances (Percentage to total expenditure)	272 (01)	551 (02)	897 (02)	1103 (02)	1906 (03)

(Source: Finance Accounts of the respective years)

Revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and make payment for past obligations and as such does not result in any addition to the State's infrastructure and services network.

The Revenue expenditure was 81 *per cent* of the total expenditure, of which, 73 *per cent* was on non-plan revenue expenditure and 27 *per cent* was on plan expenditure (*Appendix-1.7*) indicating that more than half of the revenue expenditure was incurred on non-plan expenditure.

Plan revenue expenditure

The share of plan revenue expenditure which normally covered the maintenance expenditure incurred on services, increased as a percentage of the total revenue expenditure from 16 in 2007-08 to 22 in 2011-12. The plan revenue expenditure during 2011-12 increased by ₹ 1587 crore (15 *per cent*) relative to 2010-11 mainly due to increase under Social welfare and nutrition (₹ 673 crore), Welfare of Scheduled caste, Scheduled tribes and Other backward castes (₹ 501 crore), General economic services (₹ 178 crore) and Health and family welfare (₹ 157 crore). However, the plan revenue expenditure (₹ 12487 crore) was less than the budget estimates (₹ 27503 crore) by ₹ 15016 crore (55 *per cent*) as detailed in *Appendix 1.4*.

Non-plan revenue expenditure

The non-plan revenue expenditure (NPRE) during 2011-12 increased by ₹ 6697 crore (25 *per cent*) mainly due to increase in the expenditure under Education, Sports, Art and Culture services (₹ 1941 crore), rural development (₹ 1134 crore), energy (₹ 946 crore), transport (₹ 154 crore), and Health and Family Welfare (₹ 144 crore) (*Appendix-1.4*).

The NPRE (₹ 34013 crore) was less than the normative projection made in the budget estimates (₹ 37823 crore) by 10 *per cent* (₹ 3810 crore). However, the share of NPRE to total revenue expenditure declined from 63 *per cent* in 2007-08 to 59 *per cent* in 2011-12.

Capital expenditure

- Capital expenditure decreased by four per cent (₹ 344 crore) over the previous year mainly due to decrease in expenditure under the Heads: capital outlay on Energy (₹ 905 crore), water supply, sanitation, housing and urban development programmes (₹ 298 crore), Rural development (₹ 115 crore) and education, sports, arts and culture (₹ 87 crore).

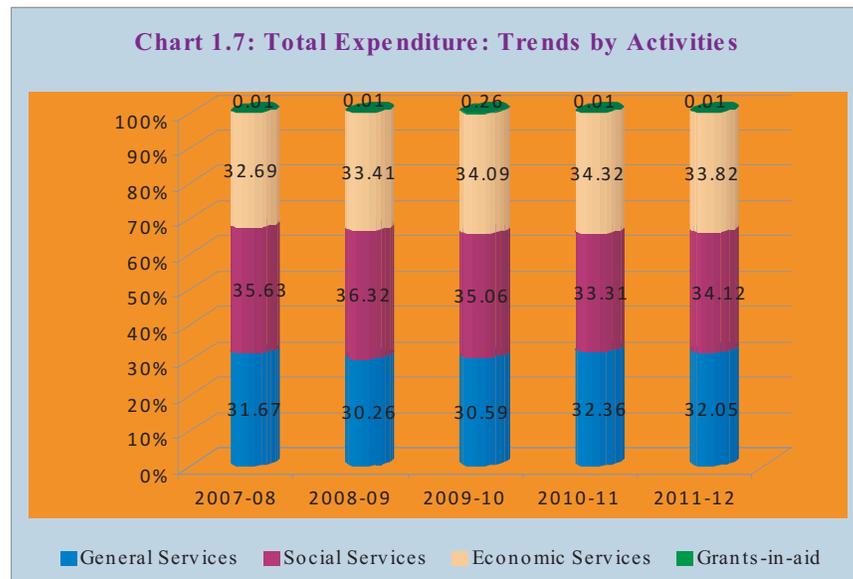
- The capital expenditure and loans and advances were 15 *per cent* and three *per cent* respectively of the total expenditure.

The share of expenditure on loans and advances in 2010-11 was two *per cent* which increased to three *per cent* of the total expenditure during the year due to increase in disbursement in loans and advances by the State Government.

Trends in total expenditure in terms of activities

In terms of activities, total expenditure could be considered as being composed of expenditure on General Services (including interest payments), Social and Economic services, Grants-in-aid. Relative share of these components in total expenditure is indicated in **Chart-1.7**.

Chart-1.7 depicts the composition of total expenditure in terms of 'Economic classification' over the period 2007-12.



(Source: State Finance Accounts of the respective years)

The movement of relative share to various components of expenditure indicated that while share of General Services including interest payments decreased from 31.67 *per cent* in 2007-08 to 30.59 *per cent* in 2009-10 but increased to 32.05 *per cent* in 2011-12. The share of economic services increased from 32.69 *per cent* in 2007-08 to 34.32 *per cent* in 2010-11 and it remained at 33.82 *per cent* in 2011-12.

Revenue expenditure of the State increased from ₹ 38215.92 crore in 2010-11 to ₹ 46499.49 crore in 2011-12. The break-up of revenue expenditure into NPRE and Plan revenue expenditure (PRE) showed that the proportionate share of NPRE in the increase of RE was substantially higher than the PRE.

While the share of General Services and Economic Services in total expenditure increased marginally from 2007-08 to 2011-12, the share of Social Services marginally decreased during this period. The total increase of ₹ 8283.57 crore comprised of ₹ 6696.25 crore and ₹ 1587.32 crore in NPRE and PRE respectively. The NPRE in 2011-12 at ₹ 34013 crore was higher than the narrative assessment of ThFC (₹ 26475 crore) but less than budget estimates (₹ 37823 crore).

1.4.2 Expenditure on interest payments, salaries and wages, pensions, subsidies and repayment of debt

Table 1.7 presents the trends in the expenditure on components of interest payments, salaries and wages, pensions, subsidies and repayment of debt during 2007-12.

Table-1.7: Trends of Expenditure on interest payments, salaries and wages, pensions, subsidies and repayment of debt on revenue account

Sl No.	Items of Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
						BE	Expenditure
1	Salaries	6469.53 (22.93)	7545.61 (22.88)	9658.74 (27.19)	10549.85 (23.69)	12777.92	12193.69 (23.76)
2	Under Non-Plan	5914.81 (20.97)	6996.20 (21.21)	9001.42 (25.34)	9954.35 (22.35)	12451.18	11494.50 (22.40)
3	Under Plan *	554.72 (1.97)	549.41 (1.67)	657.32 (1.85)	595.51 (1.34)	326.74	699.19 (1.36)
4	Interest Payments	3706.99 (13.14)	3752.94 (11.38)	3685.48 (10.37)	4319.16 (9.70)	4738.51	4303.66 (8.39)
5	Pensions	2788.94 (9.89)	3479.03 (10.55)	4318.70 (12.16)	6143.86 (13.80)	7584.26	7808.45 (15.22)
6	Repayment of Debt	1631.85 (25.22)	1682.28 (22.29)	1982.99 (20.53)	2190.03 (20.76)	2907.89	2922.46 (23.97)
7	Subsidies	402.36 (1.43)	808.31 (2.45)	944.39 (2.66)	1349.96 (3.03)	0.00	2672.27 (5.21)
8	Total (1+4+5+6+7)	14999.67 (53.17)	17268.17 (52.36)	20590.30 (57.96)	24552.86 (55.13)	28008.58	29900.53 (58.26)
9	Other Components	8563.20 (30.36)	11243.41 (34.09)	11993.87 (33.76)	13663.06 (30.68)	21924.98	16598.96 (32.34)
10	Revenue Expenditure	23562.87	28511.58	32584.17	38215.92	49933.56	46499.49
11	Revenue Receipts	28209.72	32980.69	35526.83	44532.32	56205.86	51320.17

Figures in the parentheses indicate percentage to Revenue Receipts

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

(Source: State Finance Accounts of the respective years and Budget for the year 2011-12)

Expenditure on Salaries

Expenditure on salaries as a percentage of revenue receipts decreased from 27.19 per cent in 2009-10 to 23.76 per cent during 2011-12. The expenditure of ₹ 12193.69 crore on salaries was higher than ThFC assessment (₹ 9707.99 crore) by ₹ 2485.70 crore but were lower than the budget estimates (₹ 12777.92 crore) by ₹ 584.23 crore.

Interest Payments

Interest payments (₹ 4303.66 crore) increased by 16.10 per cent over the last five years (2007-12). The percentage of interest payments to revenue receipts decreased from 13.14 per cent in 2007-08 to 8.39 per cent in 2011-12. Interest payments (₹ 4303.66 crore) during 2011-12 were within the assessment made by ThFC (₹ 4763.57 crore) and the budget estimates (₹ 4738.51 crore).

Pension Payments

Expenditure on pension (₹ 7808.45 crore) was 15.22 per cent of the total revenue receipts of the State during the year. This expenditure was higher than the ThFC assessment of ₹ 4245.11 crore by ₹ 3563.34 crore (83.94 per cent) and exceeded the budget estimate of ₹ 7584.26 crore by ₹ 224.19 crore (2.96 per cent) during the year.

Expenditure on Repayment of Debt

Expenditure on Repayment of Debt as a percentage of revenue receipts decreased from 25.22 per cent in 2007-08 to 23.97 per cent during 2011-12. This expenditure marginally exceeded the budget estimates (₹ 2907.89 crore) by ₹ 14.57 crore (0.50 per cent).

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 subsidized 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.

The total subsidies during the current year was ₹ 2672.27 crore which was 97.95 per cent higher than previous year and constituted 5.75 per cent of revenue expenditure. Of this, ₹ 2133.39 crore was provided as resource gap to the Bihar State Electricity Board (BSEB), ₹ 207.87 crore for promotion of agricultural mechanisation, ₹ 165 crore for VAT subsidy under Industrial policy and ₹ 120 crore for subsidy to food processing industries. During 2011-12, the resource gap of BSEB was higher by ₹ 1053.39 crore over the previous year.

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

The quantum of assistance provided by way of grants to local bodies and other institutions during the period 2007-12 is presented in the **Table 1.8** below:

Table 1.8 :Financial Assistance to Local Bodies and other institutions

	(₹ in crore)				
Financial Assistance to Institutions	2007-08	2008-09	2009-10	2010-11	2011-12
Educational Institutions (Aided Schools, Aided Colleges, Universities)	808.58	966.80	613.07	1940.11	5581.07
Municipal Corporations and Municipalities	209.40	950.04	997.68	690.21	557.30
Zila Parishad and Other Panchayati Raj Institutions	13.16	900.05	1395.22	1515.34	2534.41
Development Agencies	1.88	26.84	984.13	394.24	3029.74
Hospitals and Other Charitable Institutions	5.00	20.51	33.44	53.67	25.00
Other Institutions	95.35	1558.25	356.33	28.25	2716.16
Total	1133.37	4422.49	4379.87	4621.82	14443.68
Assistance as per percentage of RE	4.81	15.51	13.44	12.09	31.06

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

An analysis of the above table reveals that the financial assistance during 2011-12 increased to ₹ 14444 crore⁵ from ₹ 4622 crore in 2010-11. The increase of ₹ 9822 crore (213 per cent) over the previous year was mainly due to increase in assistance to educational institutions (₹ 3641 crore), ZPs and PRIs (₹ 1019 crore), Development agencies (₹ 2636 crore) and other institutions (₹ 2688 crore). The assistance to Municipal Corporation and Municipalities and Hospitals and Other charitable institutions, however, decreased by ₹ 133 crore and ₹ 29 crore respectively.

⁵ As per note no.8 to Finance Accounts total GIA disbursed on the basis of data captured in VLC system on treasury vouchers is ₹ 14444 crore. Against which only 391 sanction orders for GIA of ₹ 12849 crore was received in the AG (A&E)'s office from various departments.

Analysis of expenditure of Other institutions (₹ 2716 crore) reveals that the major expenditure was in Bihar State Crop Insurance Fund (Grants to State Crop Insurance Fund on account of compensation for payment of insured crop to farmers) ₹ 244.94 crore⁶, Bihar Agriculture Management and Extension (National Agriculture Development Plan) ₹ 414.69 crore, Bihar State Crop Insurance Fund (for crop insurance schemes) ₹ 215.95 crore, Bihar Rural Development Society (Mahatma Gandhi Rural Employment Guarantees Schemes) ₹ 196.50 crore, Food Processing Units (Incentive for food processing industries) ₹ 158.16 crore, Block Development Officers (Scholarship to students of backward class) ₹ 143.63 crore, Deputy Director, Schedule Caste/Scheduled Tribes Welfare Department, Bihar (For development of Mahadalit) ₹ 118 crore, Block/Nagar Panchayat (Indira Gandhi Renewable Energy), Development Agencies (Assistance for administrative expenses) ₹ 64 crore and District Programme Officers of ICDS (Dress Schemes for Anganwari children) ₹ 23.25 crore etc.

1.5 Quality of Expenditure

Any expenditure incurred towards improving the quality of life, whether to improve infrastructure, education and health care among others in the State generally reflects positively on the quality of its expenditure. This expenditure quality paradigm basically involves three components, viz., adequacy of the expenditure, efficiency of usage and the effectiveness of the expenditure in attaining its intended objectives. Audit assessment of the quality expenditure on the above basis revealed the following:

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, social security 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 1.9 analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2011-12.

Table 1.9: Fiscal Priority and Fiscal capacity of the State in 2008-09 and 2011-12

(In per cent)

Fiscal Priority by the State	AE/ GSDP	DE [#] / AE	SSE/ AE	CE/ AE	Edn/ AE	Health/ AE
*General Category States Average (Ratio) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Bihar's Average (Ratio) 2008 -09	23.41	69.73	36.32	18.13	19.39	3.63
General Category State Average (Ratio) 2011 -12	16.09	66.44	36.57	13.25	17.18	4.30
Bihar's Average (Ratio) 2011 -12	21.83	67.94	34.12	15.46	17.84	3.71

* As per cent of GSDP
 AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure,
 CE: Capital Expenditure, Edn: Education
[#] DE includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

(Source: State Finance Accounts of respective years, Directorate of Economics and Statistics, Government of Bihar for GSDP)

⁶ Out of shown expenditure ₹ 190.45 crore was lying in the Bank Account of Cooperative Department Bihar State Crop Insurance Fund.

Table 1.9 indicates the following:

- Bihar is spending higher proportion of its GSDP on aggregate expenditure as compared to average of general category States⁷. However, as compared to 2008-09, Bihar has spent less proportion of its GSDP on aggregate expenditure in the current year.
- Development expenditure as proportion of aggregate expenditure in Bihar during 2011-12 was also higher than the average of general category States in 2008-09 as well as in 2011-12 showing adequate priority given to developmental expenditure.
- In Bihar, adequate priority has been given to the overall Social sector and Education sector but less priority to Health sector as compared to average of general category States in 2008-09 as well as in 2011-12.
- The proportion of capital expenditure has been higher in both the years 2008-09 and 2011-12, 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 heads⁸ from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods⁹. Apart from improving the allocation towards development expenditure¹⁰, particularly in view of the fiscal space being created on account of the decline in the expenditure on debt servicing in the recent years, the efficiency of expenditure use is also reflected in 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 efficiency of expenditure use is also reflected in 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.

Development expenditure comprises revenue and capital expenditure including loans and advances in socio-economic services.

Table 1.10 and chart 1.8 represent the trends of 'development expenditure' relative to the aggregate expenditure of the State during 2007-12.

⁷ This average is of 16 general category states excluding Delhi, Goa & Puducherry.

⁸ Development heads include Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

⁹ Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a goods leads to no subtractions from any other individual's consumption of that goods, e.g. enforcement of law and order, security and protection of 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.

¹⁰ 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.

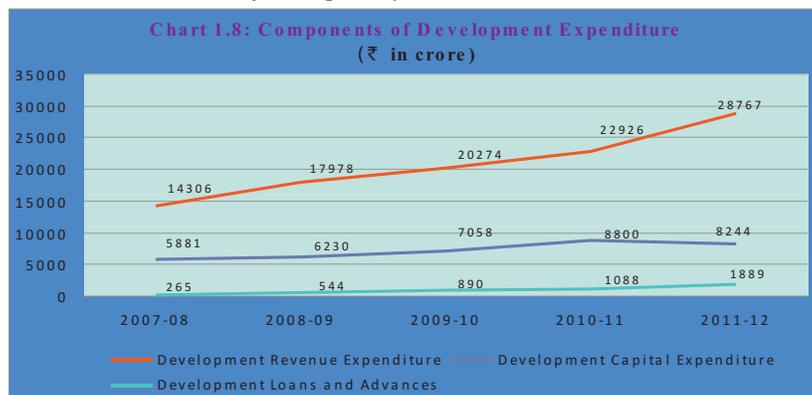
Table-1.10: Development Expenditure relative to aggregate expenditure

(₹ in crore)					
Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12
Development Expenditure (a to c) (percentage of DE to total expenditure)	20452 (68.31)	24752 (69.73)	28222 (69.15)	32814 (67.64)	38900 (67.94)
a. Development Revenue Expenditure#	14306 (47.78)	17978 (50.64)	20274 (49.68)	22926 (47.26)	28767 (50.24)
b. Development Capital Expenditure#	5881 (19.64)	6230 (17.55)	7058 (17.29)	8800 (18.14)	8244 (14.40)
c. Development Loans and Advances	265 (0.89)	544 (1.53)	890 (2.18)	1088 (2.24)	1889 (3.30)

Figures in Parentheses indicate percentage of DE to total expenditure.

Included social service and economic service expenditure

(Source: State Finance Accounts of the respective years)



(Source: State Finance Accounts of the respective years)

Development expenditure comprising revenue expenditure, capital expenditure and loans and advances on socio-economic services increased from ₹ 20452 crore in 2007-08 to ₹ 38900 crore in 2011-12. As a percentage of total expenditure, it was around 68 per cent during 2007-2012.

Expenditure on Social and Economic Services

Table 1.11 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected Social and Economic Services during 2010-11 and 2011-12.

Table 1.11: Efficiency of Expenditure and its use in Selected Services

Social/Economic Infrastructure	2010-11		2011-12	
	Share of CE in TE	Share of S&W in RE	Share of CE in TE	Share of S&W in RE
Social Services (SS)				
General Education	0.15	44.60	0.32	43.28
Health and Family Welfare	9.90	73.32	15.11	72.89
Water Supply, Sanitation, & Housing and Urban Development	27.06	10.28	16.23	11.59
Total (SS)	6.71	43.25	4.81	43.21
Economic Services (ES)				
Agriculture & Allied Activities	0.83	19.57	5.77	23.78
Irrigation and Flood Control	51.04	47.73	59.96	47.15
Power & Energy	45.31	-	4.51	-
Transport	86.52	25.73	83.75	23.30
Total (ES)	55.51	22.86	50.26	20.34
Total (SS+ES)	30.72	36.80	25.98	36.05

TE: Total Expenditure, CE: Capital Expenditure, RE: Revenue Expenditure, S&W: Salaries and Wages

(Source: State Finance Accounts of the respective years)

The trends presented in **Table 1.11** above revealed that capital expenditure of these selected socio-economic services as a percentage of the total expenditure on these heads decreased from 30.72 *per cent* in 2010-11 to 25.98 *per cent* in 2011-12, which does not auger well for the State. Share of salaries and wages in revenue expenditure of these heads decreased from 36.80 *per cent* in 2010-11 to 36.05 *per cent* in 2011-12, which indicated a positive shift in the State finances.

In the selected services, the percentage of capital expenditure on Social Services to total expenditure decreased from 6.71 *per cent* in 2010-11 to 4.81 *per cent* in 2011-12. The percentage of capital expenditure on the selected Economic Services to total expenditure decreased from 55.51 *per cent* in 2010-11 to 50.26 *per cent* in 2011-12. The decrease was mainly seen under Water Supply, Sanitation & Housing and Urban Development in Social Services and Power & Energy and Transport in Economic Services.

The share of salary and wages in revenue expenditure on the selected social services marginally decreased from 43.25 *per cent* in 2010-11 to 43.21 *per cent* in 2011-12 while the share of salary and wages in revenue expenditure on the selected Economic Services decreased from 22.86 *per cent* in 2010-11 to 20.34 *per cent* in 2011-12. The decreases were mainly seen under Transport and Irrigation and Flood control in the Economic Services and General education and Health and family welfare under Social Service. Similarly, increases were seen under agriculture and allied activities in the economic services and Water Supply, Sanitation & Housing and Urban Development in the Social Services.

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, the broad financial comparison and analysis of State Government investments and capital expenditure during the current year *vis-à-vis* the previous years are presented.

1.6.1 Incomplete projects

The blocking of funds on incomplete works (including works stopped due to reasons such as litigation) impinges negatively on the quality of expenditure. The department-wise information pertaining to incomplete projects as on 31 March 2012 is given in **Table 1.12**. Altogether, 380 schemes/projects (estimated cost ₹ 3395.35 crore) were due for completion up to March 2012, but remained incomplete resulting in blocking of ₹ 1579.46 crore. Further it was revealed that there were cost overruns to the extent of ₹ 22.20 crore in 12 schemes/projects of Water Resources Department (08), Road Construction Department (03) and National Highway (01) as given in **Appendix 1.8**.

Table 1.12: Department-wise Profile of Incomplete Projects

Department	No. of Incomplete Projects	Estimated cost	Progressive expenditure upto March 2012	Cost over run	
				No.	Amount
Public Health Engineering	254	1263.79	567.58	0	0
National Highway	09	64.35	30.52	1	0.29
Building Construction	12	40.97	25.08	0	0
Water Resources	80	1856.98	875.98	8	20.60
Road Construction	25	169.26	80.30	3	1.31
Total	380	3395.35	1579.46	12	22.20

(Source: Finance Accounts of the State for the year 2011-12)

Non-completion of projects/works within the stipulated time not only result in increase in cost but also delay the intended benefit.

1.6.2 Investments and returns

As of 31 March 2012, the State Government had invested ₹ 920.82 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Institutions as indicated in Table 1.13.

Table-1.13: Return on Investment

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	828.68	832.18	856.18	905.24	920.82
Return (₹ in crore)	3.19	2.14	2.06	2.53	1.40
Return (per cent)	0.38	0.26	0.24	0.28	0.15
Average rate of interest on Government borrowing (per cent)	7.15	7.93	6.48	6.87	6.35
Difference between interest rate and return (per cent)	6.77	7.67	6.24	6.59	6.20

(Source: State Finance Accounts of the respective years)

As may be seen from Table 1.13 above the average return on these investments was 0.26 per cent in last five years while the Government paid average interest rate of 6.96 per cent on its borrowings during 2007-12.

Of the ₹ 920.82 crore invested by the State Government, in the share capital of different entities, ₹ 105.63 crore was invested in three statutory corporations, ₹ 403 crore in 39 Government Companies, ₹ 3.88 crore in 10 other joint stock companies and partnerships and ₹ 378.12 crore in 16 co-operative institutions and local bodies. Government invested ₹ 15.58 crore during the year. Out of this two crore was invested in Government companies.

There was meager return of ₹ 1.40 crore against the investment of ₹ 920.82 crore during 2011-12. In test check it was revealed that in eight Government Companies/Corporations¹¹, there was loss of ₹ 1366.56 crore against the investment of ₹ 967.74 crore in equities (₹153.82 crore) and loans (₹ 813.92 crore). As a result, the entire sum of investment in these eight companies/corporations is non-realizable. Similarly in 15 government companies/corporations with the investment of ₹ 243.79 crore, there was significant loss of ₹ 215.19 crore (Details in Appendix 1.9). As per ThFC recommendations, all states were required to draw up a road map for winding up of non-working PSUs by March 2011. However, no detailed plans in this regard were communicated by the departments concerned.

¹¹ Bihar State Road Transport Corporation, Bihar State Financial Corporation, Bihar State Credit and Investment Corporation Ltd., Bihar State Agro Industries Development Corporation Ltd., Bihar Rajya Beej Nigam Ltd., Bihar State Dairy Corporation Ltd, Bihar Text Book Publishing Corporation Ltd and Bihar State Police Building Construction Corporation.

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 is providing loans and advances to many institutions and organizations.

Table 1.14 presents the status of outstanding loans and advances and interest receipts vis-à-vis interest payments during the last three years.

Table -1.14: Average Interest Received on Loans Advanced by the State Government
(₹ in crore)

Amount of Loans/Interest Receipts/ Cost of Borrowings	2009-10	2010-11	2011-12
Opening Balance	14667.83	15551.42	16642.19
Amount advanced during the year	896.78	1102.63	1906.08
Amount repaid during the year	13.20	11.86	22.51
Closing Balance	15551.41	16642.19	18525.76
<i>Of which</i> outstanding balance for which terms and conditions have been settled			
Net addition	883.58	1090.77	1883.57
Interest Receipts	353.27	237.96	573.70
Interest receipts as percentage of outstanding Loans and advances	2.27	1.43	3.10
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	6.28	6.87	6.35
Difference between interest payments and interest receipts (per cent)	-4.01	-5.44	-3.25

(Source: State Finance Accounts of the respective years)

Loans advanced during the current year (₹ 1906.08 crore) increased by ₹ 803.45 crore (73 per cent) over the previous year (₹ 1102.63 crore). Out of ₹ 1906.08 crore advanced during the year, ₹ 935.54 crore was for power projects. Further, of the total outstanding loans of ₹ 18525.76 crore, ₹ 14730.25 crore were of the power sector. This shows that the Government was providing loans and advances to the power sector without ensuring their repayment (principal and interest). Test check revealed that Bihar State Electricity Board was provided loan of ₹ 13642.81 crore up to 2011-12 and the Board has been incurring substantial loss each year (Details in *Appendix 1.9*).

1.6.4 Cash Balances and Investment of Cash balances

Table 1.15 depicts the cash balances and investments made by the State Government during the year.

Table-1.15: Cash Balances and Investment of Cash balances

Particulars	As on 31 March 2011	As on 31 March 2012	Increase/ Decrease
Cash Balances	2735.44	1509.45	-1225.99
Investments from Cash Balances (a to d)	2294.80	434.46	(-)1860.34
a. GOI Treasury Bills	0.00	0.00	0.00
b. GOI Securities	2290.15	429.81	(-)1860.34
c. Securities of other State Government	4.65	4.65	0.00
d. Other Investments	0.00	0.00	0.00
Fund-wise break-up of Investment from Earmarked balances (a to c)	440.10	676.53	236.43
a. Famine Relief Fund	0.10	0.10	0.00
b. Sinking Fund	440.00	676.43	236.43
Interest Realised	222.08	236.53	14.45

*No increase, figures adopted by rounding of 0.0961

(Source: State Finance Accounts of the respective years)

Cash balances decreased from ₹ 2735.44 crore to ₹1509.45 crore during the year. Further, the State Government's investments in GOI securities decreased from ₹ 2290.15 crore as on 31 March 2011 to ₹ 429.81 crore as on 31 March 2012. The investment in earmarked balances increased by ₹ 236.43 crore in the year ending 31 March 2012. Interest of ₹ 236.53 crore realized on investment during 2011-12 was higher by ₹ 14.45 crore than the interest realised (₹ 222.08 crore) during 2010-11.

Test check of records of Cooperative department headquarters, five District Planning Offices¹², Principal, Srikrishna Medical College, Muzaffarpur and 12 Corporations¹³, Councils, Undertakings and Societies revealed that Government Funds to the tune of ₹ 2413.57 Crore was lying in 66 Commercial Bank accounts, Fixed Deposit etc of these institutions/organizations (Details in *Appendix 1.10*) as indicated in foot note no. 5 of Statement 1 of Finance Accounts.

1.7 Assets and Liabilities

1.7.1 Growth and composition of assets and liabilities

The existing Government accounting system does not provide for the comprehensive accounting of fixed assets like land and buildings owned by the Government. *Appendix 1.11* gives the summarised financial position of the State Government as on 31 March 2011 and 2012. The major liabilities were internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, whereas the assets included the capital outlays, loans and advances given by the State Government and cash balances.

Total liability means the liabilities under the Consolidated Fund and 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 1.16** and **Chart 1.9**.

Table 1.16: Outstanding Fiscal Liabilities¹⁴

Year	2007-08	2008-09	2009-10	2010-11	2011-12
Amount (₹ in crore)	50989.18	54976.75	58689.91	62858.01	67811.84
Growth Rate	3.87	7.82	6.75	7.10	7.88
Ratio of fiscal liabilities to					
GSDP	0.429	0.363	0.331	0.289	0.259
Revenue receipts	1.807	1.667	1.652	1.412	1.321
Own resources	9.086	7.504	6.013	5.791	5.022
Buoyancy ratio of fiscal liabilities to					
GSDP	0.260	0.284	0.396	0.313	0.386
Revenue receipts	0.174	0.462	0.875	0.280	0.517
Own resources	0.165	0.256	0.203	0.633	0.323

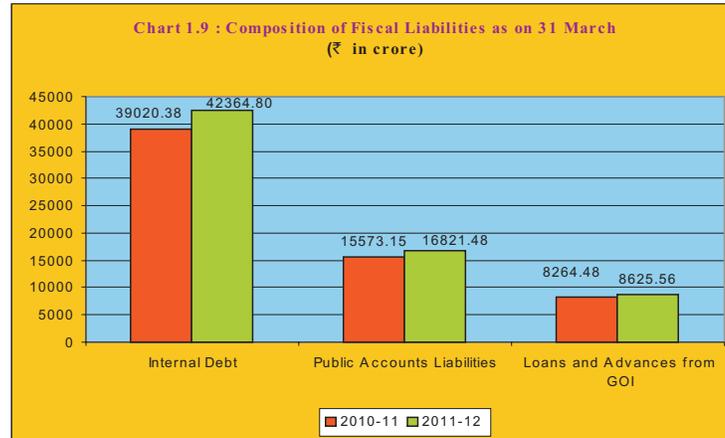
(Source: State Finance Accounts of the respective years)

¹² Ara, Bhabhua, Buxar, Motihari, and Rohtas.

¹³ Bihar Apada Punarwas Evam Punamirman Society Bihar School Examination Board (Secondary), Bihar Medical Services and Infrastructure Corporation Limited), Bihar Madhyamik Shiksha Parishad, Bihar Mahadalit Vikas Mission, Bihar Rajya Pul Nirman Nigam Ltd., Bihar Rural Road Development Authority, Bihar State Educational Infrastructure Development Corporation Limited, Bihar State Health Society, Bihar Urban Infrastructure Development Corporation Limited, Indira Gandhi Institute of Medical Sciences, and Bihar State Women Development Corporation.

¹⁴ Market loan, Loans and advances from GOI, Loans from Small Savings, PF, etc and other obligation

Fiscal liabilities of the State increased by ₹ 50989.18 crore in 2007-08 to ₹ 67811.84 crore in 2011-12. The composition of the fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Chart 1.9**.



(Source: State Finance Accounts of the respective years)

As may be seen from **Table 1.16** above the overall fiscal liabilities of the State increased from ₹ 62858.01 crore in 2010-11 to ₹ 67811.84 crore in 2011-12. The growth rate of fiscal liabilities increased from 7.10 *per cent* in 2010-11 to 7.88 *per cent* in 2011-12. However, the ratio of fiscal liabilities to GSDP decreased from 42.88 *per cent* in 2007-08 to 25.86 *per cent* during 2011-12 and was lower than norm of 30 *per cent* recommended by ThFC. It was also significantly lower than the FRBM target of 46.40 *per cent* for the current year. The liabilities stood at 1.32 times the revenue receipts and 5.02 times the State’s own resources at the end of 2011-12. The buoyancy of these liabilities with respect to GSDP during the year was 0.386. The decreasing trend of ratio of fiscal liabilities to GSDP indicates the State’s capability to discharge its liabilities.

1.7.3 Status of Guarantees–Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has 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. The position of guarantees given by the State Government for the last three years is shown in **Table 1.17**.

Table-1.17: Guarantees given by the Government

Guarantees	2009-10	2010-11	2011-12
Maximum amount guaranteed	1547.73	1549.03	2049.03
Outstanding amount (Principal) of guarantees	898.83	587.96	1092.34
Percentage of maximum amount guaranteed to total revenue receipts	4.36 (35527)	3.48 (44532)	3.99 (51320)

Figures in brackets indicate revenue receipts

(Source: State Finance Accounts of the respective years)

It was evident that the guarantees amounting to ₹ 504.38 crore was issued by the Government during 2011-12. The outstanding amount of ₹ 1092.34 crore of guarantees as on 31 March 2012 was mainly in respect of Bihar State Food and Civil Supplies Corporation (₹ 500 crore), Bihar State Electricity Board (₹ 194.68 crore), Credit co-operative (₹ 157.89 crore) and Bihar State Financial

Corporation (₹ 127.47 crore). Further, the State Government had not yet established a guarantee redemption fund by charging guarantee fees for the discharge of any liability as was recommended by Twelfth FC.

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 sustainability¹⁵ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization¹⁶; sufficiency of non-debt receipts¹⁷; Non-availability of borrowed funds¹⁸, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of the State Government securities.

Table 1.18 analyses the debt sustainability of the State, according to said indicators for the period of five years beginning from 2007-08.

Table 1.18: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread + Primary Surplus)	5925.05	10729.53	-226.39	9449.84	7910.80
Sufficiency of non-debt receipts (Resource Gap)	1318.00	-804.00	-1524	3372	-1485.07
Net Availability of borrowed funds	-1496.00	93.28	28	71	651
Burden of Interest Payments (IP/RR Ratio)	0.13	0.11	0.10	0.10	0.10
Maturity Profile of State Debt (in years)*					
Zero to one year (2012)					738.69 (3.66)
One to three years (2013-2015)					4450.55 (22.06)
Three to five years (2016-2017)					895.05 (4.44)
Five to seven years (2018-2019)					7488.93 (37.12)
More than seven years (2020 and after that)					6600.00 (32.72)
Total market borrowing					20173.22 (100.00)
* The table contains maturity profile of market loans only for which year of maturity was available in Finance Accounts for the year 2011-12					
# Figures in bracket indicate <i>per cent</i> of repayment due.					

(Source: State Finance Accounts of the respective years)

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 stabilise eventually. The quantum spread together with the primary deficit decreased from ₹ 9449.84 crore in 2010-11 to ₹ 7910.80 crore in 2011-12 which indicates that the sustainability of the debt has decreased.

Net availability of borrowed funds increased from ₹ 71 crore in 2010-11 to ₹ 651 crore in 2011-12.

¹⁵ The 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 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 balance between costs of additional borrowings with return from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt.

¹⁶ A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or 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), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually starts falling.

¹⁷ Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and incremental expenditure.

¹⁸ 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.

As per Statement No.6 of Finance Accounts for the year 2011-12, the Government, raised internal debt of ₹ 5801 crore, loans and advances from GOI ₹ 827 crore, other liabilities ₹ 11943 crore and repaid internal debts of ₹ 2457 crore, loans and advances from GOI ₹ 465 crore and discharged other liabilities worth ₹ 10694 crore. Consequently, the net availability of borrowed funds was only ₹ 651 crore during the year.

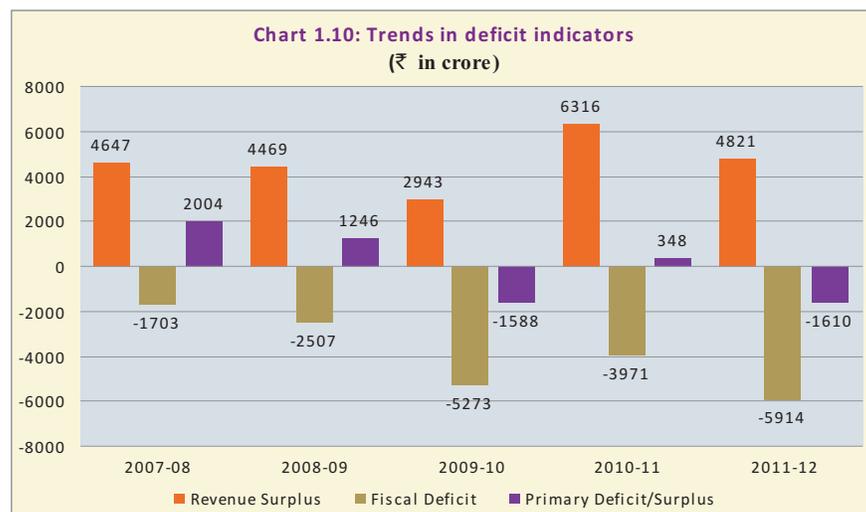
The maturity profile of the State's debt as per **Table 1.18** indicated that nearly 30.16 per cent of the total debts were repayable within the next five years, while the remaining 69.84 per cent were payable thereafter. State was liable to repay debts of ₹ 895.05 crore during the period 2016-17, ₹ 7488.93 crore during 2018-19 and ₹ 6600 crore during 2020 and after that 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.

1.9 Fiscal Imbalances

Three key fiscal parameters—revenue, fiscal and primary deficits, indicate the extent of overall fiscal imbalances in the State Finances during a specified period. The deficit in the Government accounts represents the gap between receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management by the Government. Further the ways in which the deficit was financed and the resources raised were applied are important pointers to fiscal health. This section represents the trends, magnitude and the manner of financing of these deficits and the assessment of the actual levels of revenue and fiscal deficits *vis-a-vis* targets set under FRBM Act/Rules for the year 2011-12.

1.9.1 Trends of Deficits

The State achieved revenue surplus since 2007-08 and remained in revenue surplus thereafter. **Chart 1.10** indicates that while the actual surplus increased by ₹ 3373 crore during 2010-11 but decreased by ₹ 1495 crore in 2011-12 compared to the previous year. The revenue surplus of ₹ 4821 crore during 2011-12 was significantly less than the States' Budget projection of ₹ 6272 crore.



(Source: State Finance Accounts of the respective years)

Table 1.19: Trends in deficit indicators over the period 2007-12

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue surplus/GSDP	0.039	0.029	0.017	0.029	0.018
Fiscal deficit/GSDP	0.014	0.017	0.030	0.018	0.023
Primary surplus/GSDP	0.017	0.008	-0.009	0.002	-0.006

(Source: State Finance Accounts of the respective years)

During the year, the revenue surplus decreased by ₹ 1495 crore leading to increase in the fiscal deficit from ₹ 3971 crore in 2010-11 to ₹ 5914 crore in 2011-12. The ratio of fiscal deficit to GSDP (2.26 per cent) was however well within three per cent as laid down in its FRBM Act and projections recommended by the ThFC's for the year 2011-12.

Further, the primary surplus of ₹ 348 crore (2010-11) turned into primary deficit of ₹ 1610 crore during the year (Appendix 1.7).

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 2011-12 are given in Table 1.20.

Table 1.20: Components of Fiscal Deficit and its Financing Pattern

Particulars		2007-08	2008-09	2009-10	2010-11	2011-12
Composition of Fiscal Deficit		(-)1703.46	(-)2506.97	(-)5273.01	(-)3970.31	(-)5914.90
1	Revenue Deficit/ Revenue Surplus	4646.85	4469.11	2942.66	6316.40	4820.68
2	Net Capital Expenditure	(-)6103.78	(-)6436.35	(-)7332.09	(-)9195.94	(-)8852.01
3	Net Loans and Advances	(-)246.53	(-)539.73	(-)883.58	(-)1090.77	(-)1883.57
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	(-)779.56	3757.12	2501.91	1707.78	2593.90
2	Loans from GOI	39.75	(-)278.81	(-)49.35	316.03	361.08
3	Special Securities Issued to NSSF	661.59	529.08	1472.52	1533.39	505.56
4	Loans from Financial Institutions	58.26	238.22	226.32	285.20	244.96
5	Small Savings, PF etc.	268.40	144.41	(-)262.86	252.70	(-)2.13
6	Deposits and Advances	1700.04	(-)690.52	(-)134.15	50.94	932.91
7	Suspense and Miscellaneous	(-)2190.35	395.96	(-)290.89	1830.68	1238.71
8	Remittances	618.30	(-)221.57	(-)54.82	79.96	-36.82
9	Reserve Fund	(-)44.60	293.24	(-)41.69	23.72	335.93
10	Inter State Settlement	-	-	-	-	74.02
11	Overall Surplus/Deficit	-1371.62	1660.14	-1906.02	6080.37	6248.12
12	Increase / decrease in cash balance#				-2110.06	333.22
13	Gross Fiscal Deficit				3970.31	5914.90

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

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

(Source: State Finance Accounts of the respective years)

Table 1.21: Receipts and Disbursements financing the fiscal deficit during 2011-12

Sl. No.	Particulars	Receipts	Disbursements	Net
1	Market Borrowings	4000.00	1406.10	2593.90
2	Loans from GOI	826.56	465.48	361.08
3	Special Securities Issued to National Small Savings Fund	1112.54	606.98	505.56
4	Loans from Financial Institutions	688.85	443.89	244.96
5	Small Savings, PF etc.	1031.81	1033.94	-2.13
6	Deposits and Advances	9877.98	8945.07	932.91
7	Suspense and Miscellaneous	124344.11	123105.40	1238.71
8	Remittances	9859.15	9895.97	-36.82
9	Reserve Funds	1114.53	778.60	335.93
10	Inter State Settlement	75.41	1.39	74.02
11	Overall surplus (-) deficit (+)			6248.12
12	Increase / decrease in cash balance			333.22
13	Gross Fiscal Deficit			5914.90

(Source: State Finance Accounts of the respective years)

The fiscal deficit, which represents the borrowing of the Government and its resource gap increased from ₹ 3970.31 crore in 2010-11 to ₹ 5914.90 crore in 2011-12 but was less than that projected in the Budget estimates (₹ 6194.03 crore).

During 2010-11, fiscal deficit was 43.17 *per cent* of capital expenditure but increased to 66.82 *per cent* during 2011-12. During the year 2007-08, the fiscal deficit was mainly financed by Deposits and Advances, Special Securities issued to NSSF and Remittances whereas during 2011-12, the fiscal deficit was mainly financed by Market Borrowings, Suspense and Miscellaneous, Deposits and Advances.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit¹⁹ and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's Finances. The bifurcation of the primary deficit (**Table 1.22**) 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 1.22: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)							
Year	Non-debt receipts ²⁰	Primary Revenue Exp- enditure ²¹	Capital Exp- enditure	Loans and Advances	Primary Exp- enditure	Primary revenue deficit (-)/surplus (+)	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
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
2011-12	51343	42195	8852	1906	52953	9148	-1610

(Source: State Finance Accounts of the respective years)

Table above indicates that the Government had a primary revenue surplus of ₹ 8380 crore in 2007-08 which decreased to ₹ 6641 crore in 2009-10, but increased to ₹ 10647 crore in 2010-11 and finally decreased to ₹ 9148 crore in 2011-12. This was due to increase in primary expenditure (which includes primary revenue expenditure, capital expenditure and loans and advances) from ₹ 26232 crore in 2007-08 to ₹ 52953 crore in 2011-12. 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. Though the State had primary surplus of ₹ 2004 crore in 2007-08, it turned into primary deficit of ₹ 1610 crore in 2011-12.

1.10 Conclusion

Pattern of Revenue and expenditure

The financial position of the State was stable during the year. In spite of slowdown in the Indian economy, the Revenue receipts of the Government of Bihar increased by 15.24 *per cent* during the year primarily due to significant increase in its own tax revenue by 27.78 *per cent* and higher tax devolution from the GOI by

¹⁹ Primary revenue deficit is defined as the gap between non-interest revenue expenditure of the State and its non-debt receipts and indicates the extent to which the non-debt receipts are able to meet the primary expenditure incurred under revenue account.

²⁰ Non-debt receipts is the aggregate of Revenue receipts and recovery of loans and advances.

²¹ Primary revenue expenditure is the difference between revenue expenditure and interest payment.

16.50 *per cent*. Tax revenue was more than 35.58 *per cent* and 0.23 *per cent* of the ThFC projection and Budget Estimates respectively. Non-tax revenue, however, declined by 9.71 *per cent* during the year particularly due to recovery of the debt waiver given by the GOI in 2009-10 and non-payment of pension liabilities of the pre-reorganisation period by the Government of Jharkhand.

Revenue expenditure during the year increased by 21.68 *per cent* (₹ 8283.57 crore). The increase was mainly due to the increase in expenditure on General Services by 15.98 *per cent* (₹ 2442.75 crore), Social Services by 24.12 *per cent* (₹ 3639.36 crore) and Economic Services by 28.09 *per cent* (₹ 2201.54 crore).

The non-plan revenue expenditure (NPRE) during 2011-12 increased by ₹ 6697 crore (25 *per cent*) mainly due to increase in the expenditure under Education, Sports, Art and Culture services (₹ 1941 crore), Rural development (₹ 1134 crore), Energy (₹946 crore), Transport (₹154 crore), and Health and Family Welfare (₹ 144 crore).

The plan revenue expenditure during 2011-12 increased by ₹ 1587 crore (15 *per cent*) relative to 2010-11 mainly due to increase under Social welfare and nutrition (₹ 673 crore), Welfare of Scheduled caste, Scheduled tribes and other backward castes (₹ 501 crore), General economic services (₹ 178 crore) and Health and family welfare (₹ 157 crore).

Expenditure under subsidies increased by 97.95 *per cent* over the previous year and constitutes six *per cent* of revenue expenditure.

Capital expenditure decreased by ₹ 344 crore from the previous year and accounted for 15 *per cent* of the total expenditure.

Review of Government investments

The average return of State Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Institutions was 0.26 *per cent* in last five years while the Government paid average interest rate of 6.96 *per cent* on its borrowings during this period.

Fiscal Parameters

Revenue surplus of ₹ 4821 crore during 2011-12 was significantly less than the State's Budget projection (₹ 6272 crore).

The fiscal deficit (₹ 5914 crore) increased as compared to the previous year and constituted 2.26 *per cent* of GSDP but was well within the limit (three *per cent*) fixed by ThFC and the State's own FRBM Act.

Fiscal liabilities (₹ 67811.84 crore) increased by 7.88 *per cent* over previous year. The fiscal liabilities to GSDP ratio at 25.86 *per cent* was lower than norms of 30 *per cent* recommended by ThFC.

Funds transferred directly from the GOI to the State implementing agencies

The GOI directly transferred ₹ 8958 crore to the State implementing agencies during 2011-12. These funds are not routed through the State Budget. Direct transfer of funds from GOI to these agencies implies the presence of an adequate control mechanism for effective oversight of utilization of funds, in the absence of which it could impact and inhibit the FRBM requirement of transparency in fiscal operations and accountability.

1.11 Recommendations

- State should make efforts to augment its non-tax revenue.
- There is an urgent need for the State to set up a Guarantee Redemption Fund financed by the guarantee fees collected. This will ensure timely repayment of guaranteed amounts from this fund.
- Central funds transferred directly to State implementing agencies constituted a significant amount of expenditure during the year. However, the State implementing agencies did not have a uniform accounting procedure or reporting protocol regarding the utilization of these funds. Since there is no certainty regarding the amount of funds actually utilized during the year, there is an urgent need to institutionalize transparency and accountability systems for better monitoring of Central funds directly transferred to State implementing agencies both by the State and by the Government of India.
- The State may take steps to ensure better value for 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 borrowing there.
- The Government may 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.