

CHAPTER I

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. 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 2003-04 to 2012-13 as the Compound Annual Growth Rate (CAGR) of its Gross State Domestic Product has been 18.04 *per cent* as compared to 16.37 *per cent* amongst the General Category States¹. During this period, its population also grew by 14.11 *per cent* against the average growth² of 13.22 *per cent* in General Category States. The per capita income CAGR for the period 2003-04 to 2012-13 in Bihar at 16.32 *per cent* has been higher than that of the General Category States at 14.94 *per cent*.

Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the States economy as it indicates the standard of living of the State's population. The trends in annual growth of India's Gross Domestic Product (GDP) and State's GSDP at current prices (2004-05 base year) are given in **Table 1.1**.

Table 1.1: Gross State Domestic Product

Year	2008-09	2009-10	2010-11	2011-12	2012-13
India's GDP (₹ in crore)	5303567	6108903	7266967	8353495	9461013
Growth rate of GDP (percentage) of India	15.75	15.18	18.96	14.95	13.26
State's GSDP (₹ in crore)	142279	164547	198135(P) ³	246487(Q)	294388(A)
Growth rate of GSDP (percentage) of State	19.64	15.65	20.41	24.40	19.43

(Source: Planning Commission Data of Central & State Government)

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).

³ P-Provisional, Q-Quick, A-Advance.

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 (FRBM) 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 fiscal transactions

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2012-13) *vis-à-vis* the previous year (2011-12), while *Appendix 1.4* provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of Fiscal Operations in 2012-13

(₹ in crore)

Receipts	2011-12	2012-13	Disbursements	2011-12	2012-13		
Section-A: Revenue					Non-Plan	Plan	Total
Revenue Receipts	51320.17	59566.66	Revenue Expenditure	46499.49	37573.69	16892.46	54466.15
Tax revenue	12612.10	16253.08	General services	17729.72	18570.99	74.12	18645.11
Non-tax revenue	889.86	1135.27	Social services	18728.78	11078.22	12029.15	23107.37
Share of Union Taxes/Duties	27935.23	31900.39	Economic services	10037.82	7920.77	4789.19	12709.96
Grants from Government of India	9882.98	10277.92	Grants-in-aid and Contributions	3.17	3.71	00	3.71
Section-B: Capital & Others							
Misc. Capital Receipts	0.00	0.00	Capital outlay	8852.01	93.15	9491.37	9584.52
Recoveries of Loans and Advances	22.51	24.70	Loans and Advances disbursed	1906.08	104.07	1981.88	2085.95
Public debt receipts	6627.96	9553.96	Repayment of Public Debt	2922.46	-	-	3069.96
Inter State Settlement	75.41	0.00	Inter State Settlement	1.39	-	-	0.00
Contingency Fund	800.00	2250.00	Contingency Fund	800.00	-	-	2250.00
Public Account receipts	22302.61	27066.21	Public Account disbursements	21393.22			24798.82
Opening Cash Balance	2735.44	1509.45	Closing Cash Balance	1509.45	-	-	3715.58
Total	83884.10	99970.98	Total	83884.10			99970.98

(Source: Finance Accounts of the State for the year 2012-13)

The significant changes during 2012-13 over the previous year are given below:

- Revenue receipts during the year increased by 16.07 *per cent* (₹ 8246.49 crore). The increase was due to increase in own tax revenue by 28.87 *per cent* (₹ 3640.98 crore) and State's share of Union taxes and duties by 14.19 *per cent* (₹ 3965.16 crore).
- State's own tax revenue (₹ 16253.08 crore) exceeded the Budget estimate (₹ 15695.30 crore) and ThFC assessment (₹ 10537.39 crore) by 3.55 *per cent* (₹ 557.78 crore) and 54.24 *per cent* (₹ 5715.69 crore) respectively. The increase in own tax revenue was mainly due to increase in Taxes on Goods and Passengers by 133 *per cent* (₹ 1103.82 crore), Stamps and Registration fees by 47 *per cent* (₹ 692.95 crore), State Excise by 23 *per cent* (₹ 448.84 crore), Taxes on vehicles by 18 *per cent* (₹ 104.26 crore).
- Non-tax revenue (NTR) (₹ 1135.2 crore) increased by 27.58 *per cent* (₹ 245.41 crore) over the previous year. However, the Non- tax revenue was 63.87 *per cent* (₹ 2007.19 crore) below the Budget estimate (₹ 3142.46 crore) and 40.48 *per cent* (₹ 772 crore) below the assessment made by ThFC (₹ 1907.27 crore). The increase in non-tax revenue was mainly owing to increase in Non ferrous mining and metallurgical industries by ₹ 68 crore and ₹ 149.55 crore in contributions and recovery towards pension and other retirement benefits.
- Revenue expenditure (₹ 54466.15 crore) during the year increased by 17.13 *per cent* (₹ 7966.66 crore). The increase was mainly due to the increase in expenditure on General Services by 5.16 *per cent* (₹ 915.39 crore), Social Services by 23.38 *per cent* (₹ 4378.59 crore) and Economic Services by 26.62 *per cent* (₹ 2672.14 crore). However, Revenue expenditure during the year was 10.65 *per cent* (₹ 6493.12 crore) below the budget estimate (₹ 60959.27 crore) for the year 2012-13.
- During the year the Non-Plan expenditure (revenue and capital) increased by 10.61 *per cent* (₹ 3614.59 crore) and the Plan expenditure (revenue and capital) increased by 23.87 *per cent* (₹ 5084.58 crore), when compared with the year 2011-12.
- Recoveries of loans and advances increased by 9.73 *per cent* (₹ 2.19 crore). Similarly disbursements of loans and advances increased by 9.44 *per cent* (₹ 179.87 crore). This resulted in a net increase in disbursements by ₹ 177.68 crore over the previous year.
- Capital expenditure increased by 8.28 *per cent* (₹ 732.51 crore) during the year.
- Public Account receipts increased by 21.36 *per cent* (₹ 4763.60 crore) whereas disbursements increased by 15.92 *per cent* (₹ 3405.60 crore). This resulted in a net increase in the Public Account by ₹ 1358 crore over the previous year.
- The receipts under Public Debt increased by 44.15 *per cent* (₹ 2926 crore) whereas its repayment increased by 5.05 *per cent* (₹ 147.50 crore) resulting into net increase in Public Debt by ₹ 2778.50 crore.

- The net impact of these transactions led to an increase by 146.15 *per cent* (₹ 2206.13 crore) in the cash balance at the end of the year.

1.1.2 Review of the fiscal situation

The Government of Bihar had enacted the Bihar Fiscal Responsibility and Budget Management Act, 2006. FRBM Act 2006 was amended in the year 2010 and named as “The Bihar Fiscal Responsibility and Budget Management (Amendment) Act, 2010”.

In compliance to this Act, after a delay of six years the State Government had prepared (February 2013) a Medium Term Fiscal Plan (MTFP) with projection for the period 2012-13. In line with the recommendation of the Thirteenth Finance Commission (ThFC), the State was to eliminate revenue deficit and contain the fiscal deficit as a percentage of Gross State Domestic Product (GSDP) within three *per cent* by 2012-13.

Section (12) of FRBM Act 2006 stipulates that the State Government will make rules for carrying out the provisions of this Act by issue of notification. But no rules have been framed under the Act till September 2013.

Table 1.3: Review of the Fiscal Situation

Fiscal variables	2012-13				
	XIII FC targets for the State	Targets as prescribed in FRBM Act	Targets proposed in the Budget	Projections made in Five Year Fiscal plan/MTFP	Actuals
Revenue Deficit(-)/ Surplus (+) (₹ in crore)	Zero revenue deficit or revenue surplus	Zero per cent revenue deficit or revenue surplus	(-)7088.59	(-) 8028.06	5100.51
Fiscal Deficit/ GSDP (in <i>per cent</i>)	3	3	2.87	2.97	2.22
Ratio of total outstanding debt of the Government to GSDP (in <i>per cent</i>)	44.60	44.60	28.11	Not Projected	25.99

(Source: ThFC, FRBM Act, Budget and MTFP figures for the year 2012-13)

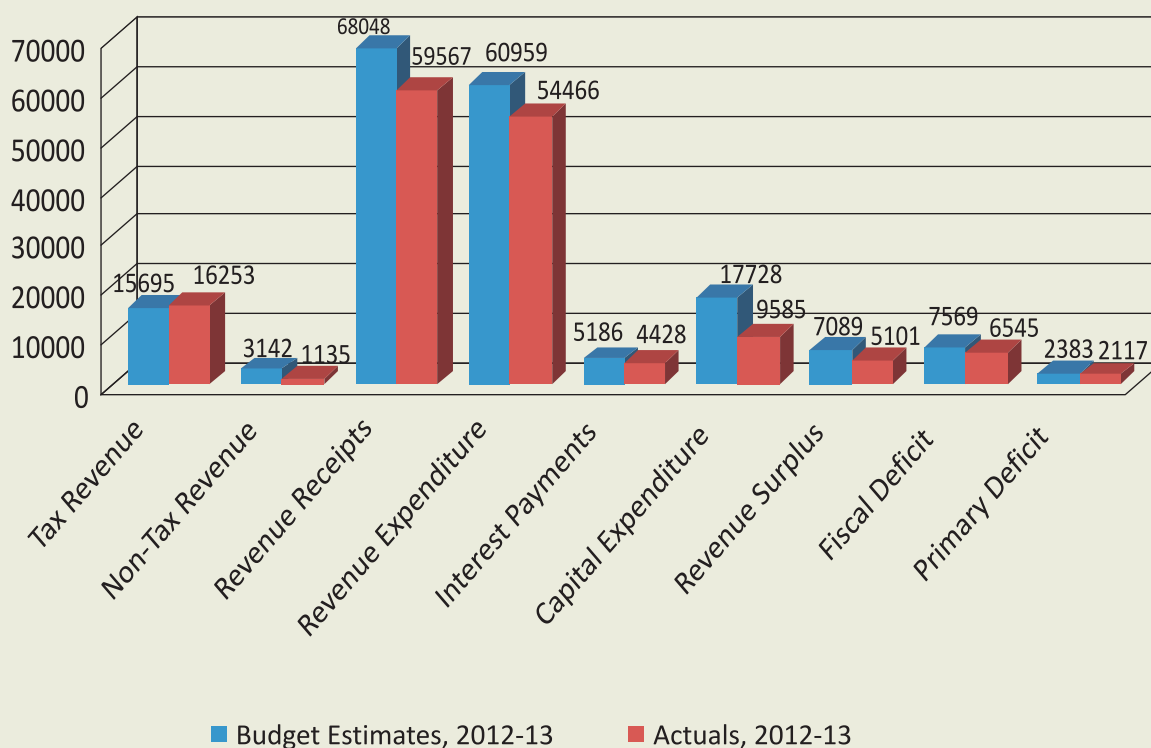
The State Government had revenue surplus since 2007-08 to 2012-13. The fiscal deficit as a percentage of GSDP was well within the limit prescribed in the FRBM Act.

1.1.3 Budget estimates and actuals

The budget presented by the State Government provides descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the Budget Estimate are indicative of non-attainment and non-optimisation of the desired fiscal objectives.

A **Chart 1.1**: representing the Budget Estimates and actuals for some important Fiscal Parameters for year 2012-13 are depicted below. The details of actuals *vis-à-vis* Budget Estimates are also given in **Appendix 1.5**.

Chart 1.1: Budget Estimates and Actuals
(₹ in crore)



(Source: Budget and State Finance Accounts for the year 2012-13)

The above chart indicates that during 2012-13 the following variations in the actuals against the BE took place as discussed below:

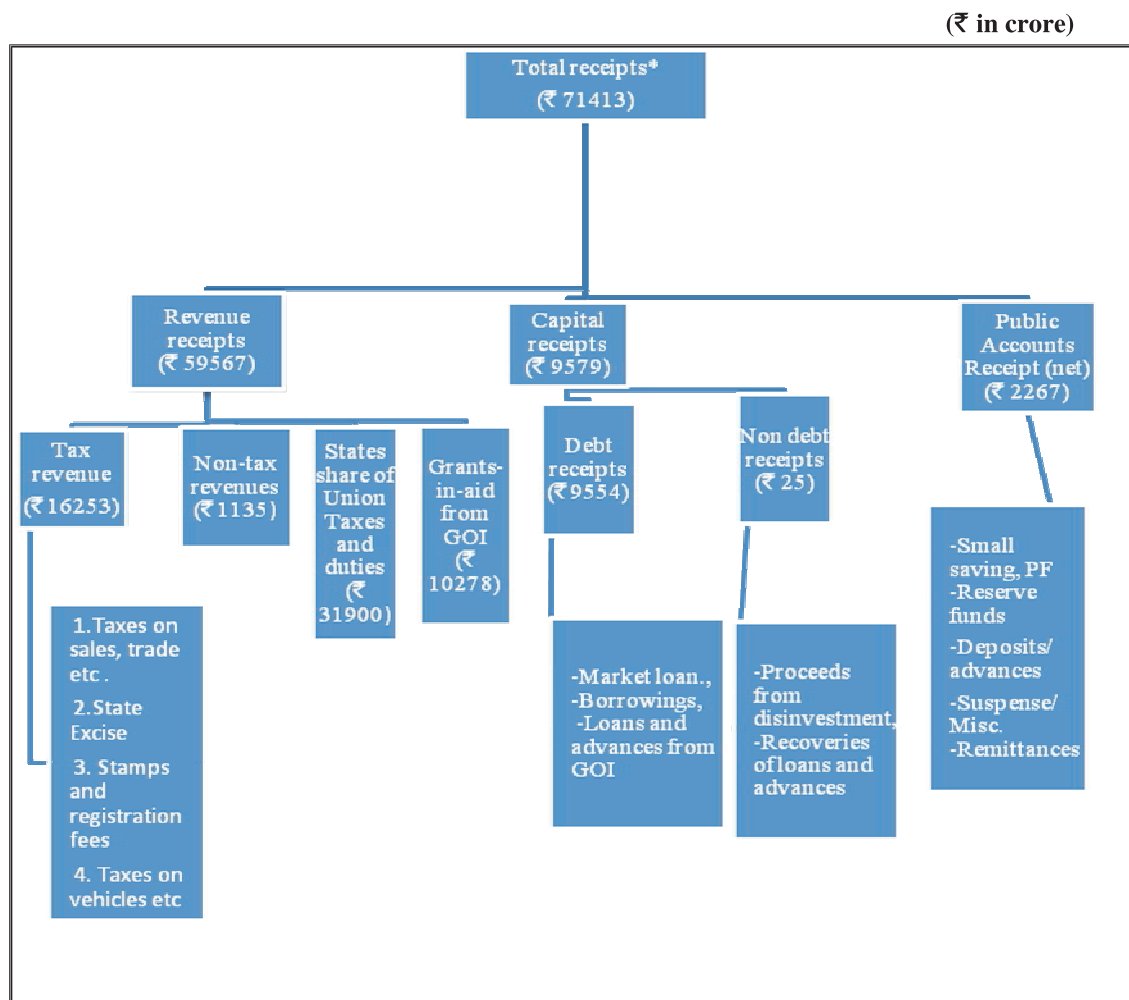
- Revenue receipts were lower than the projections made in the Budget Estimate by ₹ 8481 crore (12 per cent) mainly as a result of decrease in non-tax revenue as compared to Budget Estimate by ₹ 2007 crore (64 per cent). However, the tax revenue increased by ₹ 558 crore (four per cent).
- Revenue expenditure and capital expenditure were less than the Budget Estimate by ₹ 6493 crore (11 per cent) and ₹ 8143 crore (46 per cent) respectively. The variation in revenue expenditure was due to less expenditure of ₹ 3548 crore under General services, ₹ 2525 crore under Social services and ₹ 420 crore under Economic services.
- Revenue surplus was less than the Budget Estimate by ₹ 1988 crore (28 per cent) mainly due to decrease in revenue receipts by ₹ 8481 crore than the projections made in the Budget Estimate and decrease of ₹ 6493 crore in revenue expenditure over the projection made in the Budget Estimate.
- Fiscal deficit was less by ₹ 1024 crore over the projections made in the budget estimates (₹ 7569 crore) mainly due to decrease in revenue surplus by ₹ 1988 crore than that provisioned in the Budget Estimate.

- Primary deficit decreased by ₹ 266 crore over the projection made in the Budget Estimate.

1.2 Resources of the State[#]

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. Besides the funds available in the Public accounts after disbursement is also utilised by the Government to finance its deficit. **Table 1.2** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trend in various components of the receipts of the State during 2012-13.

Chart 1.2: Components and Sub-components of resources

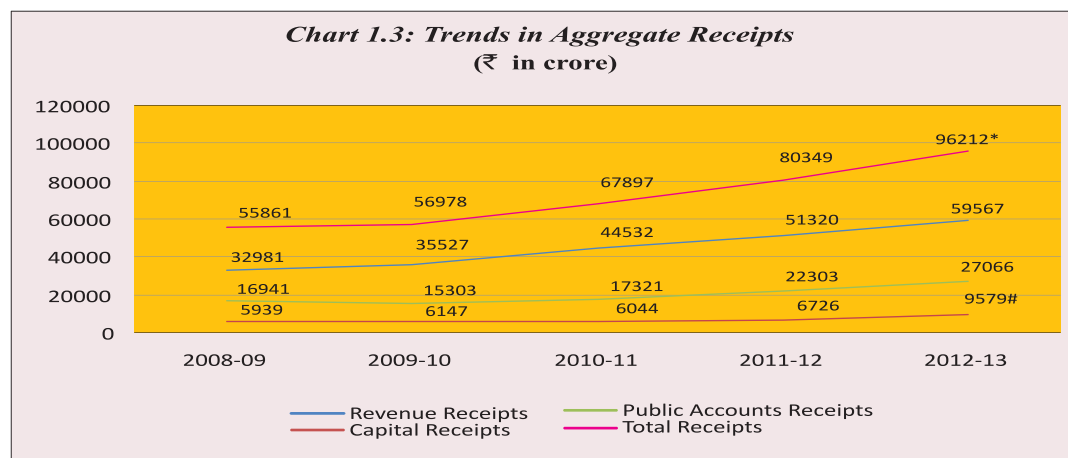


* Total receipts include Revenue receipts, Capital receipts and Public Account Receipts (net).

(Source: Finance Accounts of the States for the year 2012-13)

[#] Resources of the State as per Annual Finance Accounts.

The **Chart-1.3** depicts the trend of receipts during 2008-13 and **Chart 1.4** indicates the composition of these receipts during 2012-13.



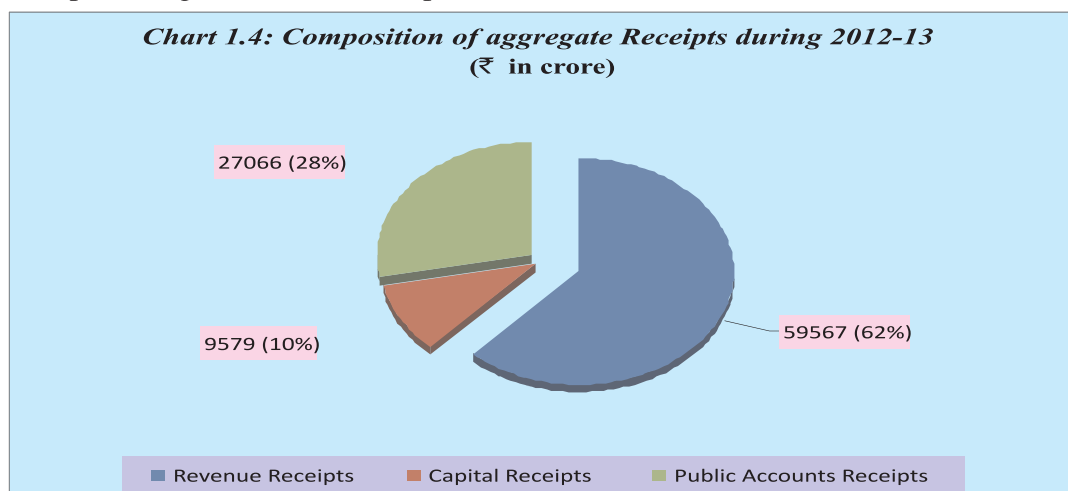
(Source: Finance Accounts of the State for the respective years)

* Total receipts include Revenue receipts, Capital receipts and Public Account Receipts.

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

Total receipts increased by 72 per cent from ₹ 55861 crore in 2008-09 to ₹ 96212 crore in 2012-13. Further, there was an increase of receipts over the previous year by ₹ 15863 crore (20 per cent).

The following chart depicts the status of composition of receipts during 2012-13 as a percentage to the total receipts (₹ 96212 crore):



(Source: Finance Accounts of the State for the year 2012-13)

The share of revenue receipts in total receipts during 2012-13 was at 62 per cent and it increased by 16 per cent from ₹ 51320 crore in 2011-12 to ₹ 59567 crore in 2012-13.

Capital receipts increased by 61 per cent from ₹ 5939 crore in 2008-09 to ₹ 9579 crore in 2012-13. During 2012-13, capital receipts accounted for 10 per cent of total receipts.

Public Account receipts represent the receipts for which the Government acts as banker /trustee for the Public money. It would be seen from the chart above that on an average, it constituted 28 per cent of the total receipts during 2012-13. During 2012-13, there was 21 per cent growth in Public Accounts receipts as compared to the previous year.

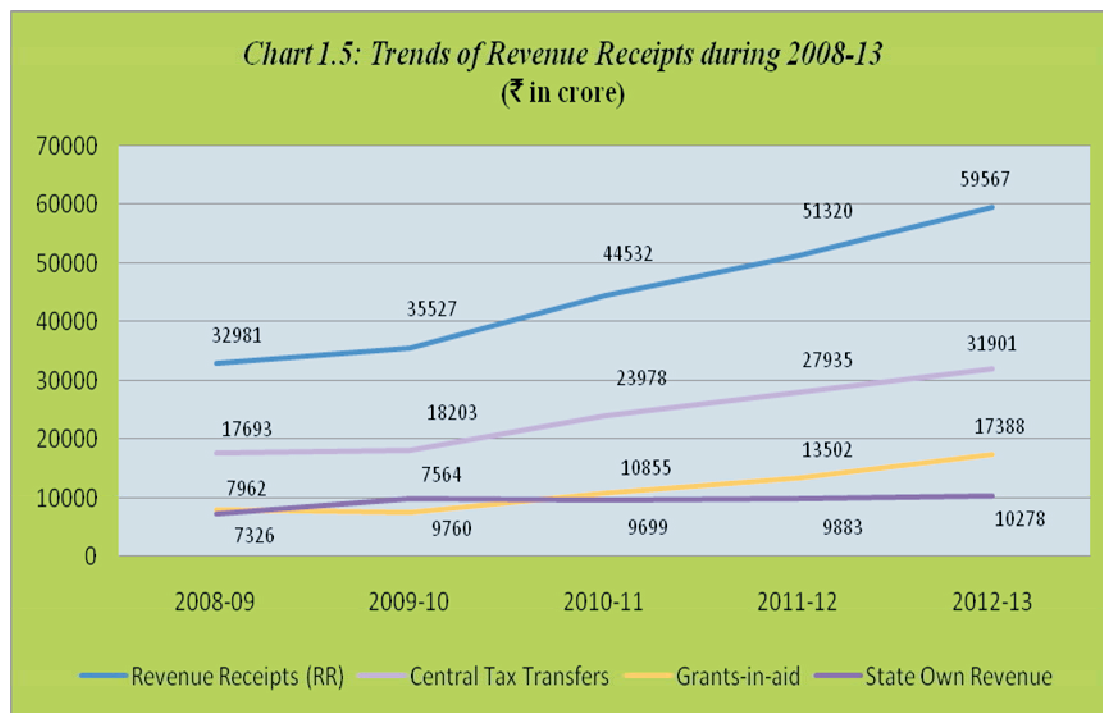
1.2.1 Funds transferred to State Implementing Agencies outside the State Budget

The Government of India (GoI) has been transferring a sizeable quantum of funds directly to the State implementing agencies⁴ for implementation of various schemes/programmes in social and economic sectors, which are recognised as critical. As in the present mechanism these funds are not routed through the State Budget/State Treasury System and hence do not find mention in the Finance Accounts of the State. As such, the Annual Finance Accounts of the State do not provide a complete picture of the resources under the control of the State Government. To present the holistic picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies are presented in **Appendix 1.6**.

During the year 2012-13 the Government of India directly transferred ₹ 8314.38 crore to the State implementing agencies which was less than the previous year by seven *per cent*. The major recipients were District Rural Development Agencies (DRDA) (₹ 3082.53 crore i.e. 37 *per cent*), Bihar Shiksha Pariyojana Parishad (₹ 2754.62 crore i.e. 33 *per cent*), Pradhan Mantri Gram Sadak Yojna (₹ 959.75 crore i.e. 12 *per cent*) and National Rural Health Mission (₹ 757.95 crore i.e. nine *per cent*).

1.3 Revenue Receipts

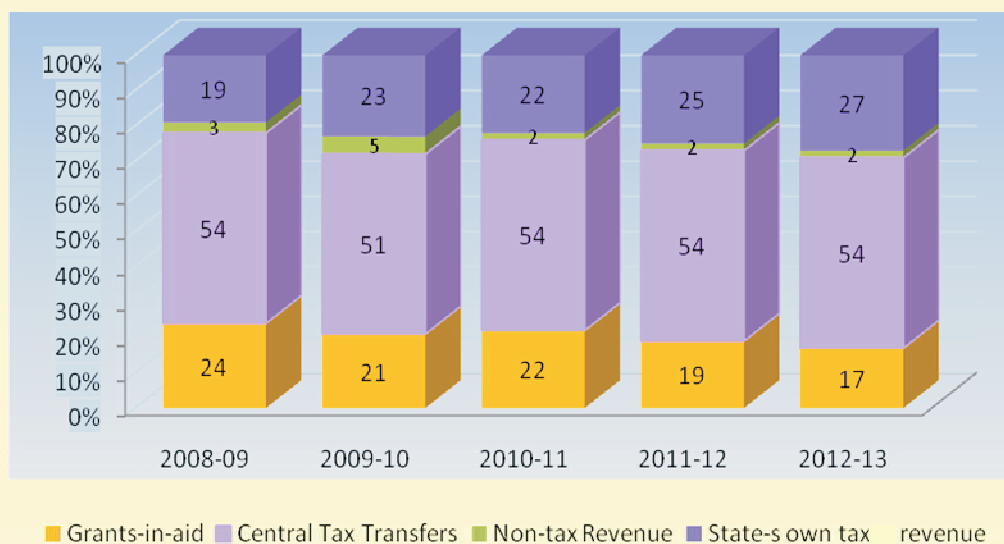
Statement-11 of the Finance Accounts details the revenue receipts of the Government. The State's revenue receipts consist of its own tax and non-tax revenue, central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2008-13 are presented in **Appendix 1.7** and also depicted in **Charts 1.5** and **1.6** respectively.



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

⁴ State implementing agencies include any organization/institution including Non-Governmental organisation which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State.

Chart 1.6: Composition of Revenue Receipts during 2008-13
(In per cent)



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

The **Charts 1.5** and **1.6** indicate the following:

- Revenue receipts showed progressive increase from ₹ 32981 crore in 2008-09 to ₹ 59567 crore in 2012-13. The share of Grants-in-aid (GIA) from the Government of India decreased from 24 *per cent* in 2008-09 to 17 *per cent* in 2012-13.
- State's own resources consist of tax revenue and non-tax revenue. The share of tax revenue in revenue receipt ranged between 19 and 27 *per cent* during 2008-13. The State had achieved a high growth of Central Tax Transfer, which was 54 *per cent* from 2008-09 to 2012-13 except during 2009-10 when it was 51 *per cent*. Non-Tax Revenue as a percentage of Revenue Receipt had increased from three *per cent* in 2008-09 to five *per cent* in 2009-10 but came down to two *per cent* in 2010-11 and remained constant upto 2012-13.

The trends of revenue receipts relative to GSDP are presented in **Table 1.4**.

Table 1.4: Trends in Revenue Receipts relative to GSDP

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Receipts (RR) (₹ in crore)	32981	35527	44532	51320	59567
Rate of growth of RR (<i>per cent</i>)	16.91	7.72	25.35	15.24	16.07
State's own tax	6173	8090	9870	12612	16253
Rate of growth of State's own tax (<i>per cent</i>)	21.37	31.05	22.00	27.78	28.87
GSDP (₹ in crore)	142279	164547	198135	246487	294388
Rate of growth of GSDP	19.64	15.65	20.41	24.40	19.43
R R/GSDP (<i>per cent</i>)	23.18	21.59	22.48	20.82	20.23
Buoyancy Ratios⁵					
Revenue Buoyancy w.r.t. GSDP	0.86	0.49	1.24	0.62	0.83
State's own tax buoyancy w.r.t. GSDP	1.09	1.98	1.08	1.14	1.49

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

⁵ 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 growth rate of revenue receipts of the State was in double digits during the period 2008-13 except in 2009-10 when it declined from 25.35 *per cent* in 2010-11 to 15.24 *per cent* however it again rose upto 16.07 *per cent* in 2012-13.

The State's own-tax buoyancy ratio with reference to GSDP ranged between 1.08 *per cent* and 1.98 *per cent* during the year 2008-09 and 2012-13.

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 State's performance in mobilization of resources was assessed in terms of its own resources comprising own tax and non-tax sources.

The State's actual tax and non-tax revenues (NTR) for the year 2012-13 *vis-a-vis* assessment made by ThFC and State Government Budget projection are given in **Table 1.5** below:

Table 1.5: Projections and Actual receipt during 2012-13

(₹ in crore)

	ThFC Projection	Budget projections	Actuals
Tax revenue	10537	15695	16253
Non-tax revenue	1907	3142	1135

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

Though the State's tax revenue during 2012-13 exceeded the ThFC projections by ₹ 5716 crore and was more than the budget projections by ₹ 558 crore, the non-tax revenue was alarmingly less than the projections of the ThFC and the State's budget projections by ₹ 772 crore and ₹ 2007 crore respectively which indicates unrealistic budget projections by the State. The Non Tax Revenue collection during 2012-13 was higher than the previous year by ₹ 245.41 crore, mainly owing to increase in Non ferrous mining and metallurgical industries by ₹ 68 crore and ₹ 149.55 crore in contributions and recovery towards pension and other retirement benefits. However, the interest receipts decreased by ₹ 406.58 crore.

1.3.1.1 Tax Revenue

The tax revenues of the State increased by 163 *per cent* from ₹ 6173 crore in 2008-09 to ₹ 16253 crore during 2012-13. Major components of increase are shown in **Table 1.6** and **Chart 1.7**.

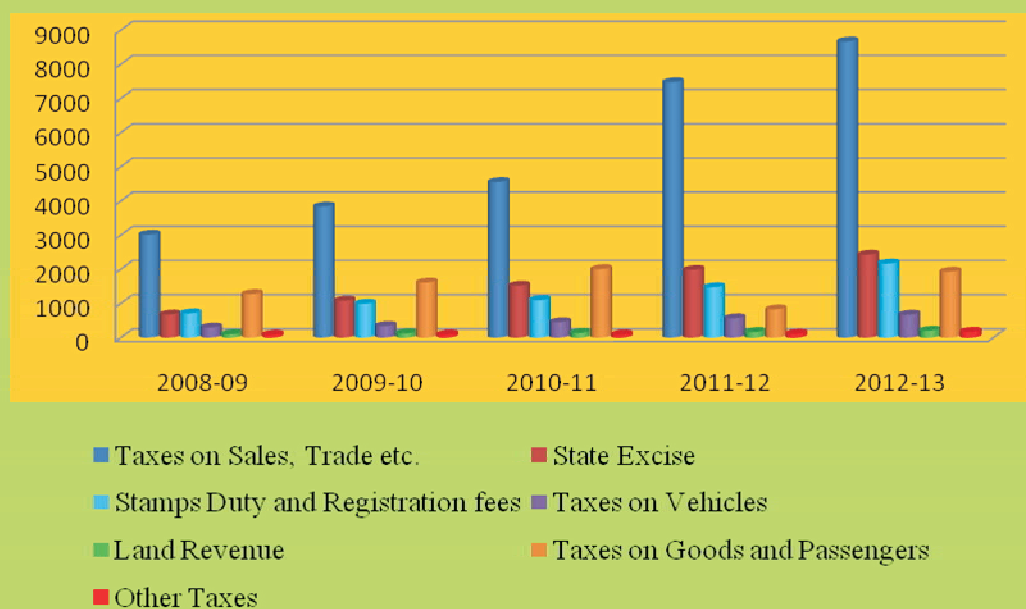
Table 1.6: Components of State's Own Tax Resources during 2008-13

(₹ in crore)

	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase over previous year
Taxes on Sales, Trade, etc.	3016	3839	4557	7476	8671	16
State Excise	679	1082	1523	1981	2430	23
Stamps Duty and Registration fees	716	998	1099	1480	2173	47
Taxes on Vehicles	298	345	456	569	673	18
Land Revenue	102	124	139	168	205	22
Taxes on Goods and Passengers	1279	1613	2006	828	1932	133
Other Taxes	83	89	90	110	169	54
Total	6173	8090	9870	12612	16253	29

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

Chart 1.7: Major Component of Tax Revenues during 2008-13
(₹ in crore)



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

Appendix 1.7 presents the time series data on the State Government finances during 2008-13. 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 was increased from 49 *per cent* in 2008-09 to 53 *per cent* in 2012-13.
- The share of State Excise increased from 11 *per cent* in 2008-09 to 15 *per cent* in 2012-13.
- The share of Stamps and Registration increased from 12 *per cent* in 2008-09 to 14 *per cent* in 2012-13.
- The share of taxes on vehicles decreased from five *per cent* in 2008-09 to four *per cent* in 2012-13.
- The share of taxes on goods and passengers also decreased from 21 *per cent* in 2008-09 to 12 *per cent* in 2012-13.
- The share of other taxes remained constant at one *per cent* during 2008-13.

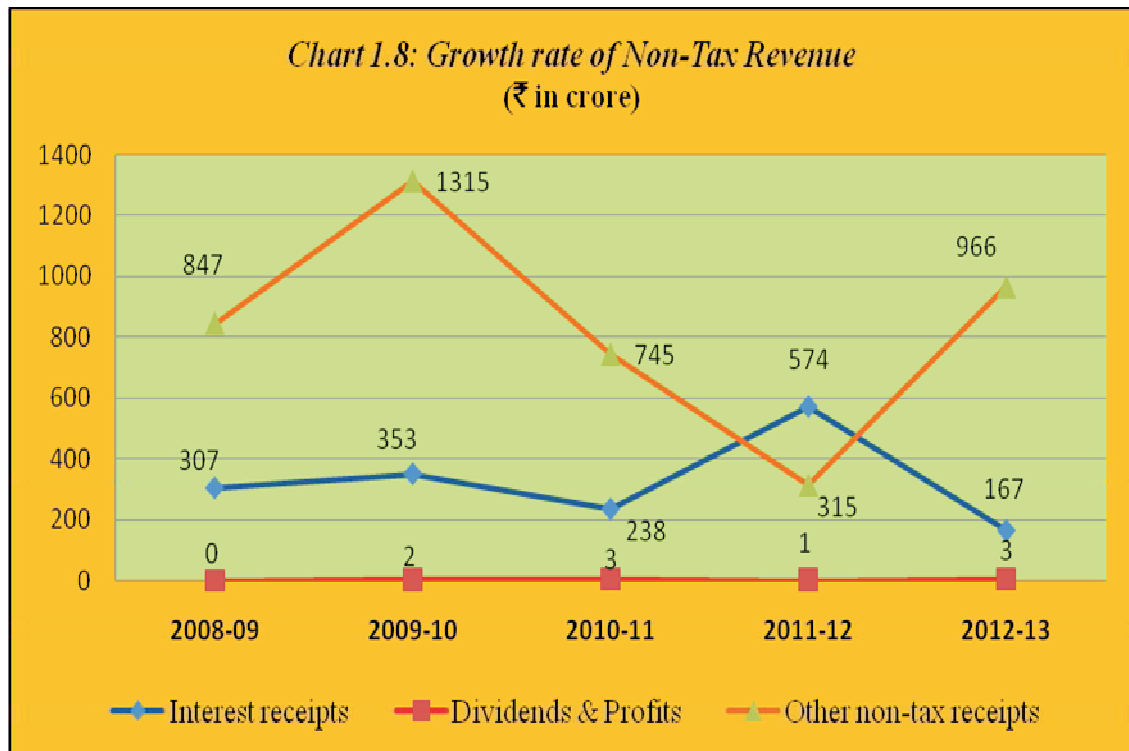
1.3.1.2 Non-Tax Revenue

Non-Tax Revenue (₹ 1135 crore) constituted 1.91 *per cent* of total revenue receipts during 2012-13. NTR collection was higher by ₹ 245 crore than the previous year. Comparative study of various component of Non-tax Revenue from 2008-09 to 2012-13 is shown in **Table 1.7** and **Chart 1.8**. Analysis of Non-Tax Revenue Receipts revealed that there was an increase in Non-ferrous Mining and Metallurgical Industries (₹ 68 crore), and contributions and recoveries towards pension and other Retirement Benefits (₹ 150 crore) but offset by decrease (₹ 407 crore) in interest receipts.

Table 1.7: Growth rate of Non-Tax Revenue

Revenue Head (NTR)						(₹ in crore)
	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage increase over previous year
Interest receipts	306.71	353.27	237.96	573.70	167.12	(-71)
Dividends & Profits	0.00	2.06	2.53	1.40	2.55	82
Other non-tax receipts	846.61	1315.09	745.04	314.76	965.60	207
Total	1153.32	1670.42	985.53	889.86	1135.27	

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



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

1.3.2 Grants-in-aid from GoI

Grants-in-aid from GoI increased from ₹ 7962 crore in 2008-09 to ₹ 10278 crore in 2012-13 as shown in Table 1.8.

Table 1.8: Grants-in-aid from GoI

Particulars						(₹ in crore)
	2008-09	2009-10	2010-11	2011-12	2012-13	
Non-Plan Grants	2550.44	2256.20	1924.78	2562.62	2412.58	
Grants for State Plan Schemes	3600.08	3720.97	5456.95	5065.39	5051.97	
Grants for Central Plan Schemes	134.94	137.71	175.70	95.78	35.69	
Grants for Centrally Sponsored Schemes	1676.66	1449.28	2141.13	2159.19	2777.68	
Grants for Special Plan Schemes	Nil	Nil	Nil	Nil	Nil	
Total	7962.12	7564.16	9698.56	9882.98	10277.92	
Percentage of increase over previous year	36.53	(-)5.00	28.22	1.90	4.00	
Revenue Receipts	32981	35527	44532	51320	59567	
Total grants as a percentage of Revenue Receipts	24.14	21.29	21.78	19.26	17.25	

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

The increase of GoI Grants by ₹ 395 crore in 2012-13 over the previous year was due to increase in Grants-in-aid for Centrally Sponsored Schemes (₹ 619 crore), offset by decrease in Grants for non-plan (₹ 150 crore) and Central Plan Schemes (₹ 60 crore). The grants-in-aid as a percentage of revenue receipts has persistently declined which indicates reducing dependence upon the Grants from GoI.

1.3.3 Debt waiver under the debt consolidation and relief facilities

The XIII FC had framed a scheme of debt relief of central loans called the Debt consolidation and relief facilities based on the fiscal performance of the State linked to the reduction of deficits in the States. The XIII FC had extended this facilities to few States which includes GoB. Under this scheme, Government of Bihar availed Debt consolidation and relief facilities during 2012-13, as ₹ 163.79 lakh, ₹ 30.82 lakh, ₹ 13.36 lakh and ₹ 1876.75 lakh was given by the Ministry of Urban Development, Industry, Road Transport & Highways and Agriculture, Government of India.

1.3.4 Central Tax transfers

The share of Union Taxes received during 2012-13 (₹ 31900.39 crore) was less (by ₹ 1225.94 crore) than the estimate (₹ 33126.33 crore). However there was an increase in State's share of Union Taxes and duties by ₹ 3965 crore over previous year mainly under Corporation Tax (₹ 463 crore), Taxes on income other than Corporation Tax (₹ 1275 crore), Service Tax (₹ 1324 crore) and Customs (₹ 458 crore).

1.4 Capital Receipts

Capital receipt increased from ₹ 5939 crore in 2008-09 to ₹ 9579 crore (61 *per cent*) in 2012-13. The trends in growth and composition of Capital Receipts are given in **Table 1.9**.

Table 1.9: Trends in growth and composition of receipts

(₹ in crore)					
Sources of State's Receipts	2008-09	2009-10	2010-11	2011-12	2012-13
Capital Receipts (CR)	5939	6148	6044	6726	9579
Miscellaneous Capital Receipts	Nil	Nil	Nil	Nil	Nil
Loans and advances from GoI	149.86	764.32	781.53	826.56	508.02
Recovery of Loans and Advances	11	13	12	23	25
Public Debt Receipts	5928	6134	6032	6628	9554
Rate of growth of public debt receipts	268 ⁶	03	(-) 2	10	44
Rate of growth of non-debt capital receipts	-	-	-	-	-
GSDP	142279	164547	198135	246487	294388
Rate of growth of GSDP	19.64	15.65	20.41	24.40	19.43
Rate of growth of CR (per cent)	263	04	(-) 2	11	42

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

1.4.1 Recoveries of loans and advances

Recovery of loans and advances increased from ₹ 23 crore in 2011-12 to ₹ 25 crore in 2012-13. It consists of loans for co-operatives ₹ 3.76 crore, other loans ₹ 8.03 crore and loans to Government Servant ₹ 12.91 crore.

⁶ During 2007-08 public debt receipt was only ₹ 1612 crore as compared to huge receipt of ₹ 5928 crore in 2008-09.

1.4.2 Debt Receipts from internal sources

Public debt receipts increased from ₹ 6628 crore in 2011-12 to ₹ 9554 crore (44 *per cent*) in 2012-13 which mainly consists of Market loan ₹ 7100 crore, loans from National Bank for Agricultural and Rural Development ₹ 902 crore and special securities issued to National Small Saving fund of Central Government ₹ 1006 crore.

1.4.3 Loans and advances from GoI

Loans and advances decreased from ₹ 826.56 crore in 2011-12 to ₹ 508.02 crore (39 *per cent*) in 2012-13 which consisted of ₹ 507.64 crore of loans for State Plan Schemes (Block loans) and House building advance ₹ 0.37 crore.

1.5 Public Accounts Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc. which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State legislature. Here the Government acts as a banker. The balance after disbursement is the fund available with the Government for use. **Table 1.10** below depicts the components of public account receipts during the period 2008-13.

Table 1.10: Components of Public Account Receipts

	(₹ in crore)				
Resources under various heads	2008-09	2009-10	2010-11	2011-12	2012-13
Public Account Receipt					
a. Small Savings, Provident Fund etc.	1153.36	707.19	838.84	1031.81	1296.09
b. Reserve Fund	1302.48	565.67	243.72	1114.53	799.33
c. Deposits and Advances	7209.94	6310.96	6624.39	9877.98	15514.80
d. Suspense and Miscellaneous	184.45	296.81	334.43	419.14	528.82
e. Remittances	7090.79	7422.76	9279.87	9859.15	8927.17
Total	16941.02	15303.39	17321.25	22302.61	27066.21

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

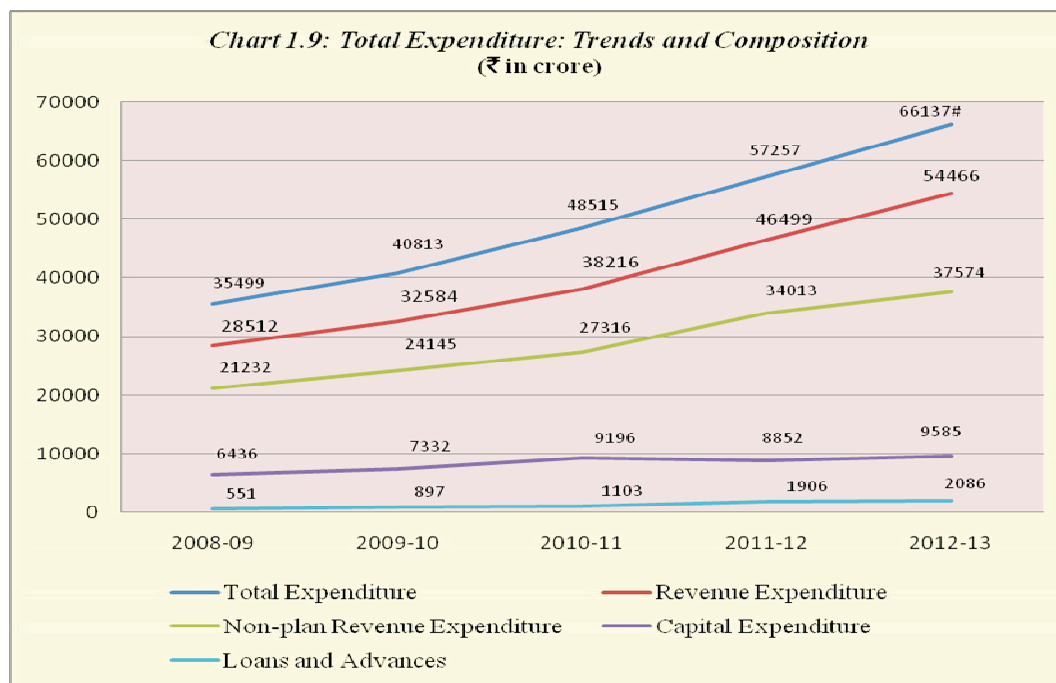
Public Accounts Receipts increased (by ₹ 10125 crore) from ₹ 16941 crore in 2008-09 to ₹ 27066 crore (60 *per cent*) in 2012-13. Major increase in Public Accounts Receipts was due to increase in deposit and advances ₹ 5637 crore and Small Saving, Provident Fund etc ₹ 264 crore during 2012-13 with offset of ₹ 932 crore in remittance and ₹ 315 crore in Reserve fund during the year.

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

1.6.1 Growth and Composition of Expenditure

Chart 1.9 presents the trends in total expenditure over a period of five years (2008-13).



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

- The total expenditure comprising revenue expenditure, capital expenditure and loans and advances, increased from ₹ 35499 crore in 2008-09 to ₹ 66137 crore in 2012-13.
- The increase of ₹ 8880 crore in total expenditure in 2012-13 over the previous year was mainly due to increase of ₹ 7967 crore (17 per cent) in revenue expenditure and ₹ 733 crore (eight per cent) in capital expenditure.
- Major capital expenditure in health sector was ₹ 200 crore for construction of Building for Additional Primary Health Centre, ₹ 113 crore for land acquisition for All India Institute of Medical Science, Patna (Allopathy) for new medical college and Para Medical Institution, ₹ 46 crore for Allopathy Health and Nutrition Programme and ₹ 30 crore for construction of office and residential buildings of District Medical Officer.
- The major revenue expenditure of ₹ 13957 crore was in General education. This expenditure was mainly on assistance to Non-government primary schools, Sarva Shiksha Abhiyan, National Programme of Mid-day Meal.
- Expenditure in Power Sector was ₹ 3193 crore under Revenue Account during the year 2012-13. Major expenditure was under Assistance to Public Sector and other undertakings.

1.6.2 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. Trends in Revenue expenditure-basic parameters are given below **Table 1.11**.

Total expenditure does not include public debt repayment.

Table 1.11: Revenue expenditure-basic parameters

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue expenditure (RE), of which (₹ in crore)	28512	32584	38216	46499	54466
Non-Plan revenue expenditure (NPRE)	21232	24145	27316	34012	37574
Plan revenue expenditure (PRE)	7280	8439	10900	12487	16892
Rate of Growth of					
RE (<i>per cent</i>)	21.00	14.28	17.28	21.67	17.13
NPRE (<i>per cent</i>)	13.18	13.72	13.13	24.51	10.47
PRE (<i>per cent</i>)	51.54	15.92	29.16	14.56	35.28
Revenue expenditure as percentage of TE	80.32	79.84	78.77	81.21	82.35
NPRE/GSDP (<i>per cent</i>)	14.92	14.67	13.79	13.80	12.76
NPRE as percentage of TE	59.81	59.16	56.30	59.40	56.81
NPRE as percentage of RR	64.38	67.96	61.34	66.27	63.08
Buoyancy of revenue expenditure with					
GSDP (ratio)	1.07	0.91	0.85	0.89	0.88
Revenue receipts (ratio)	1.24	1.85	0.68	1.42	1.07

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

Revenue Expenditure

It would be seen from the above table that the Revenue expenditure increased during 2012-13 by ₹ 7967 crore (17.13 *per cent*) over the previous year and was 82.35 *per cent* of the total expenditure.

Non-plan revenue expenditure

The non-plan revenue expenditure (NPRE) during 2012-13 increased by ₹ 3562 crore (10.47 *per cent*) mainly due to increase in the expenditure under Education, Sports, Art and Culture services (₹ 637 crore), Health and Family Welfare (₹ 130 crore), Rural Development (₹ 422 crore) and Energy (₹ 1039 crore) as detailed in **Appendix 1.4**.

The NPRE (₹ 37574 crore) was less than the normative projection made in the budget estimates (₹ 45323 crore) by 21 *per cent*. Further, the share of NPRE to total expenditure declined from 60 *per cent* in 2008-09 to 57 *per cent* in 2012-13.

Plan revenue expenditure

The plan revenue expenditure during 2012-13 increased by ₹ 4405 crore (35 *per cent*) relative to 2011-12 mainly due to increase under Education, Sports, Art and Culture (₹ 2286 crore), Water Supply Sanitation, Housing and Urban Development (₹ 457 crore), welfare of scheduled castes, scheduled tribe and other backward classes (₹ 698 crore). However, the plan revenue expenditure (₹ 16892 crore) was less than the budget estimates (₹ 33364 crore) by ₹ 16472 crore (49 *per cent*) during 2012-13 as compared to previous year as detailed in **Appendix 1.4**.

1.6.3 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure of salaries and wages, pensions and subsidies. **Table 1.12** and **Chart 1.10** present the trends in the expenditure on these components during 2008-13.

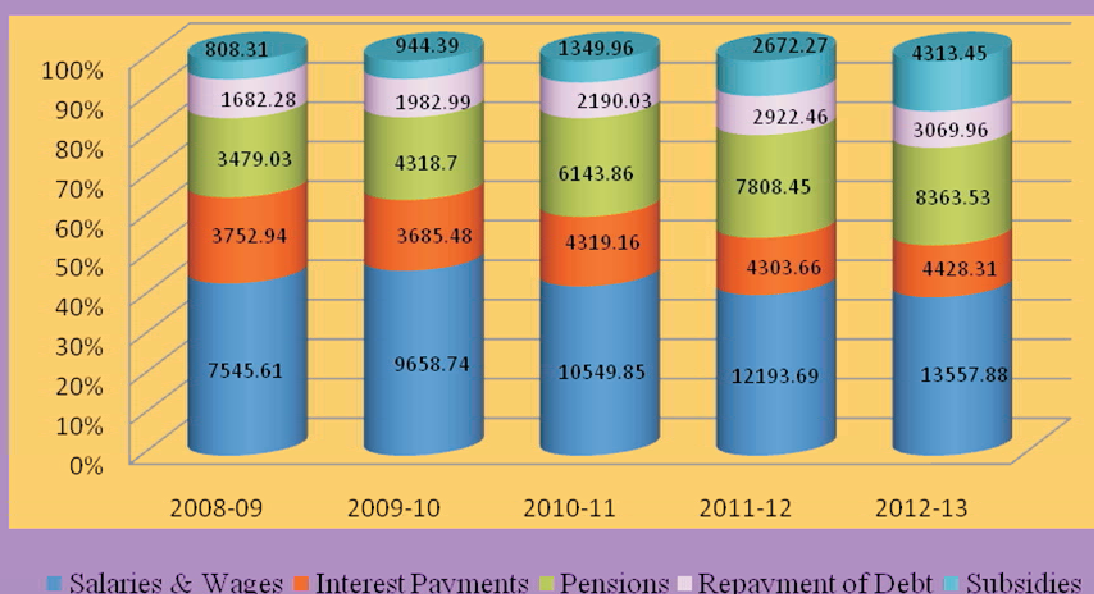
Table 1.12: Components of committed expenditure during 2008-13

(₹ in crore)

Sl. No.	Components of committed Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13	
						BE	Actual Expenditure
1	Salaries & wages of which	7545.61 (22.88)	9658.74 (27.19)	10549.85 (23.69)	12193.69 (23.76)	14909.33	13557.88 (22.76)
1(a)	Non-Plan head	6996.20 (21.21)	9001.42 (25.34)	9954.35 (22.35)	11494.50 (22.40)	14100.66	12865.06 (21.60)
1(b)	Plan head	549.41 (1.67)	657.32 (1.85)	595.51 (1.34)	699.19 (1.36)	808.66	692.82 (1.16)
2	Interest Payments	3752.94 (11.38)	3685.48 (10.37)	4319.16 (9.70)	4303.66 (8.39)	5186.00	4428.31 (7.43)
3	Exp. on Pensions	3479.03 (10.55)	4318.70 (12.16)	6143.86 (13.80)	7808.45 (15.22)	10043.02	8363.53 (14.04)
4	Repayment of Debt	1682.28 (22.29)	1982.99 (20.53)	2190.03 (20.76)	2922.46 (23.97)	3054.48	3069.96 (5.15)
5	Subsidies	808.31 (2.45)	944.39 (2.66)	1349.96 (3.03)	2672.27 (5.21)	0.00	4313.45 (7.24)
6	Other Components	11243.41 (34.09)	11993.87 (33.76)	13663.06 (30.68)	16598.96 (32.34)	27766.44	20733.02 (34.81)
7	Total (1+4+5+6+7)	17268.17 (52.36)	20590.30 (57.96)	24552.86 (55.13)	29900.53 (58.26)	33192.83	33733.13 (56.63)
8	Revenue Receipts	32980.69	35526.83	44532.32	51320.17	68047.86	59566.66
9	Revenue Expenditure	28511.58	32584.17	38215.92	46499.49	60959.27	54466.15

Figures in the parentheses indicate percentage to Revenue Receipts

(Source: Finance Accounts of the State for the respective years and Budget for the year 2012-13)

Chart 1.10: Components of Committed Expenditure
(₹ in crore)

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

Expenditure on Salaries

Expenditure on salaries as a percentage of revenue receipts decreased from 23.76 *per cent* in 2011-12 to 22.76 *per cent* in 2012-13. The expenditure of ₹ 13557.88 crore on salaries was higher than ThFC assessment (₹ 10282.94 crore) by ₹ 3274.94 crore but were lower than the budget estimates (₹ 14909.33 crore) by ₹ 1351.45 crore.

Expenditure on pension payment

Expenditure on Pension payment grew up from ₹ 3479 crore in 2008-09 to ₹ 8364 crore in 2012-13 i.e. an increase of ₹ 4885 crore (140 *per cent*), pension payments alone accounted for more than 14 *per cent* of revenue receipts of the State during the year and increased by ₹ 555 crore (seven *per cent*) over the previous year.

The expenditure during the year on “Pension and other Retirement benefits” to State Government employees recruited on or before 31 August 2005 was ₹ 8363.53 crore (15.36 *per cent* of total revenue expenditure). State Government employees recruited on or after 01 September 2005 are covered under the New Pension Scheme, which is a defined contributory pension scheme. In terms of the Scheme, the employee contributes 10 *per cent* of his monthly salary and dearness allowance, which is matched by the State Government and the entire amount is transferred to the designated fund manager through the National Securities Depository Limited (NSDL)/Trustee Bank. The actual amount payable by employees and the matching Government contribution has not been estimated, but during the year, the State Government deposited ₹ 345.01 crore to NSDL/Trustee Bank, which included ₹ 169.66 crore towards employee’s contribution and ₹ 175.35 crore towards employer’s contribution, leaving a balance of ₹ 203.33 crore contributed under the Scheme as on 31 March 2013, but remaining to be transferred to NSDL/Trustee Bank. Uncollected, unmatched and untransferred amounts, with accrued interest, represent outstanding liabilities under the Scheme.

Interest Payments

Expenditure on interest payments (₹ 4428.31 crore) was 2.90 *per cent* higher than the last year. The percentage of interest payment to revenue receipts decreased from 11.38 *per cent* in 2008-09 to 7.43 *per cent* in 2012-13. Interest payments (₹ 4428.31 crore) during 2012-13 were within the assessment made by ThFC (₹ 5125.30 crore) and the budget estimates (₹ 5186 crore).

Expenditure on Repayment of Debt

Expenditure on Repayment of Debt as a percentage of revenue receipts decreased from 22.29 *per cent* in 2008-09 to 5.15 *per cent* in 2012-13. This expenditure marginally exceeded the budget estimates (₹ 3054.48 crore) by ₹ 15.48 crore (0.5 *per cent*).

Subsidies

In any welfare State, it is not uncommon to provide subsidies/subventions to disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also 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 ₹ 4313.45 crore which was 61 *per cent* higher than previous year and constituted 7.24 *per cent* of revenue receipt. Of this, ₹ 2160 crore was provided as resource gap of Bihar State Electricity Board (BSEB), ₹ 234.90 crore for terminal benefit of Bihar State Power Holding Company Limited, ₹ 787.31 crore for resource gap of Bihar State Power Holding Company Limited, ₹ 100 crore for Samagra Gavya Vikash Pariyojna, ₹ 283.42 crore for reimbursement of AMG/MMG/VAT⁷/Deferred Amount/Capital Subsidy/DG set subsidy etc. and ₹ 266.89 crore for promotion of organic farming. During 2012-13, the resources gap of BSEB was higher by ₹ 27 crore as compared to previous year.

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

The status of assistance provided by the Government by way of grants-in-aid to Local bodies and other institutions during the period 2008-13 is presented in the **Table 1.13** below:

Table 1.13: Financial Assistance to Local Bodies and other institutions

(₹ in crore)

Financial Assistance to Institutions	2008-09	2009-10	2010-11	2011-12	2012-13
Educational Institutions (Aided Schools, Aided Colleges, Universities)	966.80	613.07	1940.11	5581.07	8331.34
Municipal Corporations and Municipalities	950.04	997.68	690.21	557.30	873.56
Zila Parishad and other Panchayati Raj Institutions	900.05	1395.22	1515.34	2534.41	2595.15
Development Agencies	26.84	984.13	394.24	3029.74	3079.26
Hospitals and other Charitable Institutions	20.51	33.44	53.67	25.00	-
Other Institutions	1558.25	356.33	28.25	2716.16	2574.43
Total	4422.49	4379.87	4621.82	14443.68	17453.74
Assistance as per percentage of RE	15.51	13.44	12.09	31.06	32.05

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

An analysis of the above table reveals that the financial assistance during 2012-13 increased to ₹17454 crore from ₹14444 crore in 2011-12. The increase of ₹ 3010 crore (21 *per cent*) over the previous year was primarily due to increase in assistance to Educational Institutions (₹2750 crore), Municipal Corporations and Municipalities (₹317 crore) and Development agencies (₹49 crore). The assistance to other Institutions however, decreased by ₹ 142 crore.

Analysis of expenditure on Educational Institutions (₹ 8331 crore) revealed that the major expenditure was in Sarva Siksha Abhiyan (₹ 2723 crore), Midday Meal Scheme (₹ 1136 crore). In Zila Parishad and other Panchayati Raj Institutions (₹ 2595.15 crore), major expenditure was in Gram Panchayat General Basic Grants (₹ 429 crore), Backward Region Grant fund scheme (₹ 321 crore) and Panchyat Samiti General Basic Grants (₹ 185 crore). Similarly in Development Agency, major expenditure was under Mukhya Mantri Balika Cycle Yojana (₹ 182 crore), Integrated House and Slum Area Development Project (₹ 157 crore) and Mukhya Mantri Shahari Vikash Yojana (₹ 140 crore).

⁷

AMG- Annual Minimum Guarantee, MMG- Monthly Minimum Guarantee, VAT- Value Added Tax.

1.7 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 expenditure (i.e. adequate provisions for providing Public Services); efficiency of expenditure use and effectiveness (assessment of outlay-outcome relationship for selected services).

1.7.1 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 etc.

Table 1.14 analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2012-13.

Table 1.14: Fiscal Priority and Fiscal capacity of the State in 2009-10 and 2012-13
(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) 2009-10*	17.06	66.05	35.73	14.96	16.19	4.24
Bihar's Average (Ratio) 2009-10	24.80	69.15	35.06	17.97	18.99	3.70
General Category State Average (Ratio) 2012-13	15.93	65.79	32.77	13.23	17.23	4.47
Bihar's Average (Ratio) 2012-13	22.47	70.69	36.95	14.49	21.84	3.63
* 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)

1.7.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads⁸ for 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 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 proportion of revenue expenditure being

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.

spent on the operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure, the better would be quality of expenditure.

The status of efficiency of expenditure and its use in selected services is depicted in the **Table 1.15**.

Table 1.15: Efficiency of Expenditure and its use in selected Services

(Percentage)

Sector	2011-12		2012-13	
	Ratio of CE to TE	RE on S&W	Ratio of CE to TE	RE on S&W
Social Services (SS)				
General Education	0.32	43.28	2.00	35.77
Health and Family Welfare	15.11	72.89	23.45	79.64
Water Supply, Sanitation, & Housing and Urban Development	16.23	11.59	10.92	8.90
Total (SS)	4.81	43.21	5.87	36.80
Economic Services (ES)				
Agriculture & Allied Activities	5.77	23.78	2.81	14.76
Irrigation and Flood Control	59.96	47.15	67.97	65.89
Power & Energy	4.51	-	5.15	0.00
Transport	83.75	23.30	80.05	24.59
Total (ES)	50.26	20.34	40.49	15.70
Total (SS+ES)	25.98	36.05	20.23	30.27
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.				

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

Analysis on the sector wise expenditure and its relation to developmental indices indicates that capital expenditure of these selected socio-economic services as a percentage of the total expenditure on these heads decreased from 25.98 *per cent* in 2011-12 to 20.23 *per cent* in 2012-13, which does not auger well for the State. Share of salaries and wages in revenue expenditure of these heads decreased from 36.05 *per cent* in 2011-12 to 30.27 *per cent* in 2012-13, which indicated a positive shift in the State finances.

In the selected services, the percentage of capital expenditure on Social Services to total expenditure increased from 4.81 *per cent* in 2011-12 to 5.87 *per cent* in 2012-13. The percentage of capital expenditure on the selected Economic Services to total expenditure decreased from 50.26 *per cent* in 2011-12 to 40.49 *per cent* in 2012-13. The decrease observed was mainly under Water Supply, Sanitation & Housing and Urban Development in Social Services and Agriculture and Allied Activities and Transport in Economic Services.

The share of salary and wages in revenue expenditure on the selected social services decreased from 43.21 *per cent* in 2011-12 to 36.80 *per cent* in 2012-13 while the share of salary and wages in revenue expenditure on the selected Economic Services decreased from 20.34 *per cent* in 2011-12 to 15.70 *per cent* in 2012-13. The decrease observed was mainly under General Education (7.51 *per cent*) and Water Supply, Sanitation & Housing and Urban Development (2.61 *per cent*) in the Social Services and Agriculture and Allied activities (9.02 *per cent*) in the Economic Services.

1.8 Financial Analysis of Government Expenditure and Investments

1.8.1 Incomplete projects

The blocking of funds on incomplete works (including works stopped due to litigation) impinges negatively on the quality of expenditure. The department-wise information pertaining to incomplete projects as on 31 March 2013 is given in **Table 1.16**. Altogether, 298 schemes/projects (estimated cost ₹ 3829.75 crore) were due for completion up to March 2013, but remained incomplete resulting in blocking of ₹ 1487.57 crore. The physical progress of incomplete works ranged between zero to 99 *per cent* as of March 2013^{\$}.

Table 1.16: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department/Project	No. of Incomplete Projects	Estimated cost	Progressive expenditure upto March 2013
Public Health Engineering	132	671.09	289.92
Water Resources	124	2832.58	1009.81
Building Construction	22	230.96	142.74
Road Construction	16	77.51	35.09
National Highways	2	15.11	8.43
Rural Work	2	2.50	1.58
Total	298	3829.75	1487.57

(Source: Finance Accounts of the State for the year 2012-13)

Delay in completion of works invites the risk of cost escalation. Besides, due to delay in completion of the projects, the intended benefits from the projects could not be achieved. Thus, works need to be completed in time to avoid time and cost overruns.

1.8.2 Investments and returns

As of 31 March 2013, the State Government had invested ₹ 941.17 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Institutions as indicated in **Table 1.17**

Table 1.17: Return on Investment

Investment/Return/Cost of Borrowings	2008-09	2009-10	2010-11	2011-12	2012-13
Investment at the end of the year (₹ in crore)	832.18	856.18	905.24	920.82	941.17
Return (₹ in crore)	2.14	2.06	2.53	1.40	2.55
Return (<i>per cent</i>)	0.26	0.24	0.28	0.15	0.27
Average rate of interest ¹¹ on Government borrowing (<i>per cent</i>)	7.93	6.48	6.87	6.35	5.79
Difference between interest rate and return (<i>per cent</i>)	7.67	6.24	6.59	6.20	5.52

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

There was return of ₹ 2.55 crore only against the investment of ₹ 941.17 crore during 2012-13.

As may be seen from **Table 1.17** above, the average return on these investments was 0.24 *per cent* during last five years while the Government paid average interest rate of 6.68 *per cent* on its borrowings during 2008-13. Gap between the interest rate on borrowings and the rate of return on investment has progressively shown a decreasing trend since 2010-11. There was a decreasing trend in difference between interest rate and return from 2008-09 to 2012-13.

^{\$} Appendix-X of the Finance Accounts for the year 2012-13.

¹¹ Average rate of interest= Interest Payment*100/Fiscal Liabilities.

Of ₹ 941.17 crore invested by the State Government in the share capital of different entities, ₹ 420.71 crore in 40 Government companies, ₹ 380.97 crore in 16 co-operative institutions, ₹ 105.63 crore in three statutory corporations, ₹ 30.18 crore in one Rural Bank, ₹ 3.68 crore in nine other joint stock companies and partnerships and local bodies was invested. Government invested ₹ 20.35 crore during the year. Out of this ₹ 17.70 crore was invested in Government companies.

1.8.3 Loans and advances by the State Government

In addition to the investments in Co-operative Institutions, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organizations.

Table 1.18 presents the outstanding loans and advances as on 31 March 2013 and interest receipts *vis-à-vis* interest payments during the last three years.

Table 1.18: Average Interest received on Loans Advanced by the State Government
(₹ in crore)

Amount of Loans/Interest Receipts/ Cost of Borrowings	2010-11	2011-12	2012-13
Opening Balance	15551.42	16642.19	18525.76
Amount advanced during the year	1102.63	1906.08	2085.95
Amount repaid during the year	11.86	22.51	24.70
Closing Balance	16642.19	18525.76	20587.01
Net addition	1090.77	1883.57	2061.25
Interest Receipts	237.96	573.70	167.12
Interest receipts as percentage of outstanding Loans and advances	1.43	3.10	0.81
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	6.87	6.35	5.79
Difference between interest payments and interest receipts (<i>per cent</i>)	(-)5.44	(-)3.25	(-)4.98

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

The quantum of loans advanced increased from ₹ 1906.08 crore in 2011-12 to ₹ 2085.95 crore in 2012-13. Repayments also increased from ₹ 22.51 crore in 2011-12 to ₹ 24.70 crore in 2012-13. The difference between the interest payments and interest receipts increased from 3.25 *per cent* in 2011-12 to 4.98 *per cent* in 2012-13 due to less recovery of interest receipt.

1.8.4 Cash Balances and Investment of Cash balances

Table 1.19: Depicts the cash balances and investments made by the State Government during the year.

Table 1.19: Cash Balances and Investment of Cash balances

(₹ in crore)

Particulars	As on 31 March 2012	As on 31 March 2013	Increase/ Decrease
Cash Balances	1509.45	3715.58	2206.13
Investments from Cash Balances (a to d)	434.46	2074.37	1639.91
a. GoI Treasury Bills	0.00	0.00	0.00
b. GoI Securities	429.81	2069.72	1639.91
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 in Earmarked balances (a and b)	676.53	931.48	254.95
a. Famine Relief Fund	0.10*	0.10*	0.00
b. Sinking Fund	676.43	931.38	254.95
Interest Realised	236.53	128.42	(-)108.11

*No increase, figures adopted by rounding of 0.0961

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

Cash balances increased from ₹ 1509.45 crore to ₹ 3715.58 crore during the year. Further, the State Government's investments in GoI securities increased from ₹ 429.81 crore to ₹ 2069.72 crore as on 31 March 2013. The investment in earmarked balances increased by ₹ 254.95 crore in the year ending 31 March 2013. Interest of ₹ 128.42 crore realised on investment during 2012-13 was lower by ₹ 108.11 crore than the interest realised (₹ 236.53 crore) during 2011-12.

However, GoB resorted to market borrowings in year 2008-09 to 2010-11 despite having sufficient cash balances at the time of borrowings in those years. As such, borrowings were in contravention to the recommendation of XIII FC whereas available cash balances remained invested in Treasury Bills.

1.9 Assets and Liabilities

1.9.1 Growth and composition of assets and liabilities

In the existing Government accounting system, accounting of fixed assets like lands and buildings owned by the Government is not done in a comprehensive manner. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of expenditure incurred. **Appendix 1.8** gives an abstract of such liabilities and assets as on 31 March 2013 compared with the corresponding position as on 31 March 2012.

Total liabilities are the liabilities under the Consolidated Fund and Public Accounts of the State. Consolidated fund liabilities consist of internal debt and loans and advances from GoI. It also includes borrowings by Public Sector Undertakings and special purpose vehicles and other equivalent instruments where liability for repayment rests with the State Government.

1.9.2 Fiscal Liabilities

The trends in outstanding Fiscal liabilities of the State are presented in **Table 1.20**.

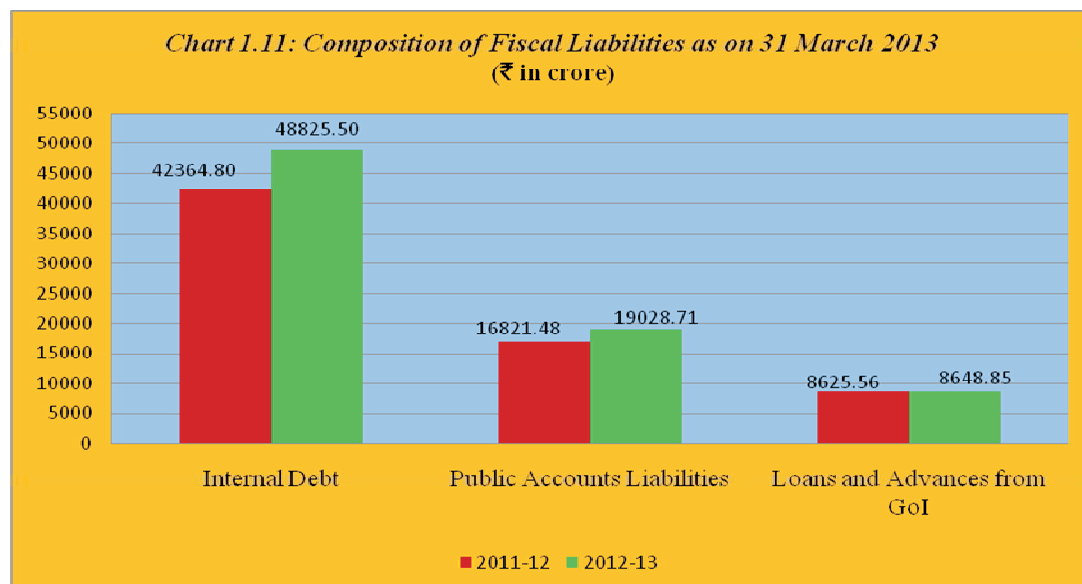
Table 1.20: Outstanding Fiscal Liabilities¹²

Year	2008-09	2009-10	2010-11	2011-12	2012-13
Amount (₹ in crore)	54976.75	58689.91	62858.01	67811.84	76503.07
Growth Rate	7.82	6.75	7.10	7.88	12.82
Ratio of fiscal liabilities to					
GSDP	0.386	0.357	0.317	0.275	0.260
Revenue receipts	1.667	1.652	1.412	1.321	1.284
Own resources	7.504	6.013	5.791	5.022	4.400
Buoyancy ratio of fiscal liabilities to					
GSDP	0.398	0.432	0.348	0.323	0.660
Revenue receipts	0.462	0.875	0.280	0.517	0.798
Own resources	0.256	0.203	0.633	0.323	0.445

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

Fiscal liabilities of the State increased from ₹ 54976.75 crore in 2008-09 to ₹ 76503.07 crore in 2012-13. The composition of the fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Chart 1.11**.

¹² Market loan, Loans and advances from GoI, Loans from Small Savings, PF, etc and other obligation



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

As can be seen from **Table 1.20** above the overall fiscal liabilities of the State increased from ₹ 67811.84 crore in 2011-12 to ₹ 76503.07 crore in 2012-13. The growth rate of fiscal liabilities increased from 7.88 *per cent* in 2011-12 to 12.82 *per cent* in 2012-13. However, the ratio of fiscal liabilities to GSDP decreased from 38.64 *per cent* in 2008-09 to 25.99 *per cent* during 2012-13 and was lower than norm as recommended by ThFC of 30 *per cent*. It was also significantly lower than the FRBM target of 44.60 *per cent* for the current year. The liabilities stood at 1.28 times the revenue receipts and 4.40 times the State's own resources at the end of 2012-13. The buoyancy of these liabilities with respect to GSDP during the year was 0.660 as compared to 0.323 during preceding year. The decreasing trend of ratio of fiscal liabilities to GSDP indicates the State's capability to discharge its liabilities.

1.9.3 Transaction under Reserve Fund

Reserves and Reserve Funds are created for specific and well defined purposes under the sector 'J' in the accounts of the State Government (Public Accounts). These funds are fed by contributions or grants from the consolidated fund of India or State or from outside agencies. The funds may be further classified as "Fund carrying interest" and 'Funds not carrying interest'. Generally the reserve funds are classified under the following three categories based on the sources from which they are fed.

- Funds accumulated from grants made by another Government and at times aided by public subscriptions, example: Fund formed from subventions from the Central Road Fund.
- Funds accumulated from sums set aside by the Union/State from the Consolidated Fund of India or Consolidated Fund of State, as the case may be, to provide reserves for expenditure to be incurred by them for particular purposes e.g. Depreciation Fund.
- Funds accumulated from the contributions made by outside agencies to the State Government.

As per Finance Accounts, six Reserve funds¹³ have been created and maintained in the accounts of the State Government.

State Disaster Response Fund

Opening balance of this fund as on 1 April 2012 was ₹ 1516.44 crore. During the year an amount of ₹ 544.38 crore was received and ₹ 268.44 crore was disbursed from the State Disaster Response Fund leaving a balance of ₹ 1792.38 crore as on 31 March 2013. It was observed that out of ₹ 544.38 crore, only ₹ 268.44 crore (50 per cent) was utilised during the year indicating unnecessary provision.

Sinking Fund

Opening balance as on 1 April 2012 was ₹ 676.43 crore and during the year a sum of ₹ 254.95 crore was invested in Sinking Fund-Investment Account. The closing balance in Sinking Fund as on 31 March 2013 was ₹ 931.38 crore.

1.9.4 Contingent liabilities

• Status of Guarantees

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 1.21**.

Table-1.21: Guarantees given by the Government

	(₹ in crore)		
Guarantees	2010-11	2011-12	2012-13
Maximum amount guaranteed	1549.03	2049.03	2046.44
Outstanding amount (Principal) of guarantees	587.96	1092.34	1089.23
Percentage of maximum amount guaranteed to total revenue receipts	3.48 (44532)	3.99 (51320)	3.44 (59567)
(Figures in brackets indicate revenue receipts)			

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

From the scrutiny of statement No. 9 of Finance Account it was observed that the Government did not furnish the status/information about the guarantees given by the State Government during the year 2012-13 and maximum amount guaranteed at the end of March 2013 has been reduced by ₹ 2.59 crore from that of previous year. The outstanding amount of ₹ 1089.23 crore of guarantees as on 31 March 2013 was mainly in respect of Bihar State Food and Civil Supplies Corporation (₹ 500 crore), Bihar State Electricity Board (₹ 194.68 crore), Bihar State Financial Corporation (₹ 127.47 crore) and credit co-operative (₹ 157.89 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.

• Off-Budget Borrowings

Government companies/corporations borrow funds from the market/financial institutions for implementation of various State Plan programmes projected outside the State budget. The borrowings of many of these concerns may sometimes turn out to be the liabilities of the State Government termed

¹³ State Disaster Response Fund, Sinking Fund, Famine Relief Fund, Development and Welfare Funds, General and other Reserve Fund & Depreciation/Renewal Reserve Funds. No transactions were made in remaining funds during the year. Hence no comments.

as ‘off-budget borrowings’. The State Government informed that it did not resort to any off budget borrowings during 2007-13.

1.9.5 Analysis of Borrowings of Government including Market Borrowings

The cash balances and the borrowings made by the State during 2008-13 are given in **Table 1.22**.

Table-1.22: Details of borrowings and cash balances

(₹ in crore)				
Year	Fiscal Deficit	Total Borrowings (including market borrowings)	Excess of borrowings over fiscal deficit	Cash Balance of March
2008-09	2507	7081	4574	3557
2009-10	5273	6842	1569	2291
2010-11	3971	6871	2900	2735
2011-12	5914	7660	1746	1509
2012-13	6545	10850	4305	3716

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

It would be seen from the above that borrowings exceeded the fiscal deficit by ₹ 4574 crore, ₹ 1569 crore, ₹ 2900 crore, ₹ 1746 crore and ₹ 4305 crore during the years 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 respectively, despite there were huge cash balances in these years. The huge cash balance ranged between ₹ 1509 crore and ₹ 3716 crore during 2008-13 could be attributed to the borrowings made in excess to the level of the fiscal deficits, as indicated in **Table 1.22**.

1.10 Debt Management

Fiscal deficit is usually financed by way of borrowings by the State. The rate of growth of debt, the debt repayment liability, Public debt repayment, reliance on debt for financing current expenditure (not Capital expenditure) the debt liability on account of loans raised by the SPV on the strength of Government guarantee and the commitments on account of debt servicing are depicted as under:

• Debt Profile

A time series analysis of previous five years showing the per capita debt is given below **Table-1.23**.

Table 1.23: Debt Profile: Indicators and Trends

(₹ in crore)					
Indicators of Debt Profile	2008-09	2009-10	2010-11	2011-12	2012-13
Net Availability of borrowed funds ^{\$}	93.28	28	71	651	4263
Burden of Interest Payments (IP/RR Ratio)	0.11	0.10	0.10	0.10	0.10

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

Net availability of borrowed funds increased from ₹ 651 crore in 2011-12 to ₹ 4263 crore in 2012-13.

As per Statement No.6 of Finance Accounts for the year 2012-13, the Government raised internal debt of ₹ 9046 crore, loans and advances from GoI ₹ 508 crore, other liabilities ₹ 17441 crore and repaid internal debts of

^{\$} Net availability of borrowed funds=Total receipts under Public Debt and Other Liabilities-(Repayment of Public Debt and Other Liabilities +Interest Payment under Non-plan MH2049)

₹ 2585 crore, loans and advances to GoI ₹ 485 crore, discharged other liabilities worth ₹ 15234 crore and also repaid interest on internal debt worth ₹ 3481 crore, interest on loans and advances from Central Government ₹ 470 crore and interest on small saving, provident fund etc. worth ₹ 478 crore.

• Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze the various indicators that determine the debt sustainability¹⁴ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization¹⁵; sufficiency of non-debt receipts¹⁶; Non-availability of borrowed funds¹⁷, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of the State Government securities.

Table 1.24 analyses the debt sustainability of the state according to these indicators for the period 2008-13.

Table 1.24: Debt Sustainability: Indicators and Trends

(₹ in crore)					
Indicators of Debt Sustainability	2008-09	2009-10	2010-11	2011-12	2012-13
Debt Stabilisation (Quantum Spread + Primary Surplus)	10729.53	(-)226.39	9449.84	7910.80	8318.02
Sufficiency of non-debt receipts (Resource Gap)	(-)804.00	(-)1524	3372	(-)1485.07	282.02
Net Availability of borrowed funds	93.28	28	71	651	4263
Burden of Interest Payments (IP/RR Ratio)	0.11	0.10	0.10	0.10	0.10
Maturit Profile of State Debt in ears *					
Zero to one year (2013)				1153.23 (4.45)	
One to three years (2014-2016)				2700.35 (10.41)	
Three to five years (2017-2018)				2737.05 (10.55)	
Five to seven years (2019-2020)				6646.93 (25.63)	
More than seven years (2021 and thereafter)				12700 (48.96)	
Total market borrowing				25937.56 (100)	
* The table contains maturity profile of market loans only for which year of maturity was available in Finance Accounts for the year 2012-13					
# Figures in bracket indicate per cent of repayment due.					

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

The status 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

¹⁴ 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.

¹⁵ 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.

¹⁶ 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.

¹⁷ 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.

with the primary surplus increased from ₹ 7910.80 crore in 2011-12 to ₹ 8318.02 crore in 2012-13 which indicates that the sustainability of the debt has increased.

The maturity profile of the State's debt as per **Table 1.24** indicated that nearly 25.41 *per cent* of the total debts were repayable within the next five years, while the remaining 74.59 *per cent* were payable thereafter. State was liable to repay debts of ₹ 2737.05 crore during the period 2017-18, ₹ 6646.93 crore during 2019-20 and ₹ 12700 crore during 2021 and after that. The State 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.

1.10.1 Debt consolidation and relief facility

As per the XIII Finance Commission recommendations, benefit of interest relief on loan availed from National Small Savings Fund (NSSF) and the write-off of outstanding loan by Government of India and State specific grants would be made available to the States on bringing the necessary amendments/enactments of FRBM Act to include targets for debt-GSDP ratio for the period from 2011-12 to 2014-15. The State Government was able to maintain the debt-GSDP ratio within the limits of 46.4 in 2011-12 and 44.6 in 2012-13 set in the FRBM Act 2006 as amended in 2010. Government of Bihar availed Debt consolidation and relief facilities during 2012-13, as ₹ 163.79 lakh, ₹ 30.82 lakh, ₹ 13.36 lakh and ₹ 1876.75 lakh was given by the Ministry of Urban Development, Industry, Road Transport & Highways and Agriculture, Government of India.

1.10.2 Review on Market Borrowings

1.10.2.1 Introduction

Fiscal deficit represents the borrowing requirements of the Government during the year. The borrowings are accounted for under the Consolidated Fund (E-Public debt). The major divisions are internal debt of the State Government and loans and advances from the Central Government. The internal debt is further divided into market loans and negotiated loans.

Market borrowings are controlled by the Central Government and managed by the Reserve Bank of India. As per Article 293 of the Constitution of India, State Governments may not, without the consent of the Central Government, raise any loan if they are indebted to the Central Government. The State Governments issue dated securities, termed State Development Loans (SDLs) of varying tenors. The present review is to assess requirement and utilization of market loans raised by the Government of Bihar during the period 2008-13.

1.10.2.2 Position of market borrowings

The year-wise position of market borrowings for the period 2008-09 to 2012-13 is given in **Table 1.25**.

Table 1.25: Year-wise position of market borrowings

(₹ in crore)						
Year	Opening Balance of market loans	Market loans raised during the year	Market loans repaid during the year	Closing Balance	Net increase in respect of opening balance	Percentage of increase over the previous year
2008-09	10706	3397	733	13370	2664	24.88
2009-10	13370	3000	498	15872	2502	18.71

Year	Opening Balance of market loans	Market loans raised during the year	Market loans repaid during the year	Closing Balance	Net increase in respect of opening balance	Percentage of increase over the previous year
2010-11	15872	2600	892	17580	1708	10.76
2011-12	17580	4000	1406	20174	2594	14.76
2012-13	20174	7100	1336	25938	5764	28.57

(Source: Finance Accounts/Finance Department)

The market borrowings increased by 142.28 *per cent* from ₹ 10706 crore at the beginning of 2008-09 to ₹ 25938 crore at the end of 2012-13. The market borrowings by State Government showed decreasing trend for the periods 2008-09 to 2010-11 but increased by ₹ 1400 crore and ₹ 3100 crore during 2011-12 and 2012-13 respectively.

1.10.2.3 Debt sustainability indicators

The debt sustainability indicators of the State Government are given in **Table 1.26**

Table 1.26: Debt sustainability indicators

(₹ in crore)					
Description	2008-09	2009-10	2010-11	2011-12	2012-13
Total liabilities	54977	58690	62858	67812	76503
Public debt*	39291	43442	47285	50990	57474
Total market loans	13370	15872	17580	20174	25938
Percentage of market loans to total liabilities	24.32	27.04	27.97	29.75	33.90
Percentage of market loans to public debt	34.03	36.54	37.18	39.56	45.13
Weighted average interest rate on market loans - financial year wise	7.83	8.21	8.50	8.85	8.85
Interest paid on market loans	865	1082	1257	1349	1600
GSDP of the State	142279	164547	198135	246487	294388
GSDP growth rate in <i>per cent</i>	19.64	15.65	20.41	24.40	19.43
GSDP growth rate and interest rate ratio	2.51:1	1.91:1	2.40:1	2.76:1	2.20:1
Gross interest payments to revenue receipts ratio	0.11:1	0.10:1	0.10:1	0.08:1	0.07:1
Primary surplus (+)/ deficit (-)	1246	(-)1588	348	(-)1610	(-)2117
Revenue surplus (+)/ deficit (-)	4469	2943	6316	4821	5101
Fiscal deficit	2507	5273	3971	5914	6545
Percentage of total liabilities to GSDP	38.64	35.67	31.72	27.51	25.99
Percentage of public debt to GSDP	27.62	26.40	23.87	20.69	19.52
Outstanding guarantees	704	859	588	1092	1089
Revenue Receipts(RR)	32981	35527	44532	51320	59567
Percentage of outstanding guarantees to RR	2.13	2.42	1.32	2.13	1.83
*Includes internal debt and loans and advances from GoI.					

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

The percentage of total liabilities to GSDP decreased from 38.64 *per cent* in 2008-09 to 25.99 *per cent* in 2012-13, whereas the percentage of public debt to GSDP decreased from 27.62 *per cent* in 2008-09 to 19.52 *per cent* in 2012-13. The share of market loans in the public debt increased from 34.03 *per cent* in 2008-09 to 45.13 *per cent* in 2012-13.

1.10.2.4 Profile of market loans

The profile of market loans raised during the last five years is given in **Table 1.27**.

Table 1.27: Profile of market loans

Periodicity of loans	Amount of loan raised (₹ in crore)					
	2008-09	2009-10	2010-11	2011-12	2012-13	Total
> 7 Years	3397	3000	2600	4000	7100	20097
Total loan made during the year	3397	3000	2600	4000	7100	20097
Total outstanding on 31 March	13370	15872	17580	20174	25938	
Percentage of loans raised during the year to total outstanding loans	25.41	18.90	14.79	19.83	27.37	

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

Total market borrowings of ₹ 20097 crore raised during 2008-13 were of 10 years maturity period.

1.10.2.5 Weighted average maturity of market loans

The average amount of time remaining before maturity of the mortgages underlying a mortgage-backed security (MBS), weighted by the percentage of the MBS that each mortgage constitutes is called weighted average maturity. The position of weighted average maturity of market loans during the last five years is given in **Table 1.28**.

Table 1.28: Weighted average maturity of market loans

(in years)

Year	Weighted average maturity	
	Issue during the year	Outstanding market loans
2008-09	10	6
2009-10	10	6
2010-11	10	6
2011-12	10	6
2012-13	10	7

(Source: Information received from Finance Department, Government of Bihar)

During the period 2008-09 to 2012-13, the weighted average maturity of market borrowings remained constant at 10 years. The weighted average maturity of outstanding stock of market borrowings remained constant between 2008-09 and 2011-12. However, it increased to seven years during 2012-13.

1.10.2.6 Maturity trend of market loans

The year-wise position of maturity trend of market loans for the period 2014-21 is given in **Table 1.29**.

Table 1.29: Maturity trend of market loans (as on 31 March 2013)

(₹ in crore)

Maturity Year	Maturity amount	As a percentage of outstanding market loans
2014-15	1433	5.52
2015-16	1267	4.88
2016-17	895	3.45
2017-18	1092	4.21
2018-19	3397	13.10
2019-20	3000	11.57
2020-21	2600	10.02

Note: Outstanding loans as on March 2013 = ₹25938 crore.

Over the next seven years, maturity amount constituted an average 7.54 per cent of the outstanding market loans with significant pressure on redemption during the

years 2018-19, 2019-20 and 2020-21 at 13.10 *per cent*, 11.57 *per cent* and 10.02 *per cent* of the outstanding debt respectively.

1.10.2.7 Interest rate profile of market loans

The year-wise average interest rates on which market loans were availed by the Government during the period 2008-13 are shown in **Table 1.30**.

Table 1.30: Interest rate profile of market loans

(₹ in crore)

Rate of interest (<i>Per cent</i>)	Market loans raised during the year					
	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Below 5	--	--	--	--	--	--
5 – 5.99	--	--	--	--	--	--
6 – 6.99	750	--	--	--	--	750
7 – 7.99	731	1000	--	--	--	1731
8 – 8.99	1916	2000	2600	3500	6350	16366
9 – 9.99	--	--	--	500	750	1250
10 – 10.99	--	--	--	--	--	--
Weighted average interest rate (<i>per cent</i>)	7.83	8.21	8.50	8.85	8.85	--

(Source: Information received from Finance Department, Government of Bihar)

The weighted average interest rate on market loans indicates an increasing trends and it increased from 7.83 *per cent* in 2008-09 to 8.85 *per cent* in 2012-13.

1.10.2.8 Interest payment as a percentage of revenue receipts

Table 1.31 brings out the ratio of interest payments to revenue receipts of the State Government during the last five years.

Table 1.31: Interest payments to revenue receipts ratio

(₹ in crore)

Gross interest payment as a percentage of revenue receipts					
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Interest payment	3753	3685	4319	4304	4428
Revenue receipts	32981	35527	44532	51320	59567
Percentage of interest payments to revenue receipts	11.38	10.37	9.70	8.39	7.43

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

Percentage of interest payment to revenue receipts showed a decreasing trend during the period 2008-13.

1.10.2.9 Variation of market borrowings from budget estimates

During test check of budget estimates and revised estimates for the year 2008-09 to 2012-13 in respect of market loans, variations in the budget estimates and actual amount of market borrowings were observed which are indicated in **Table 1.32**

Table 1.32: Budget estimates and actual market borrowings

(₹ in crore)

Year	Market borrowings as per budget estimates	Actual market borrowings	Actual market borrowings as per cent of budget estimates
2008-09	748	3397	454.14
2009-10	5284	3000	56.78
2010-11	3941	2600	65.97
2011-12	2122	4000	188.50
2012-13	5736	7100	123.78

(Source: Information received from Finance Department, Government of Bihar)

The actual market borrowings as percentage of budget estimates ranged between 56.78 *per cent* and 454.14 *per cent* during the period 2008-13 indicating unrealistic budget estimates by the State Government.

1.10.2.10 Other issues

Analysis of processing and application of market borrowings revealed the following:

(i) Market Borrowings despite availability of sufficient cash balance

XIII Finance Commission (FC) stipulated that there should be a directed effort by the States with large cash balances towards utilising their existing cash balance before resorting to fresh borrowings. However, GoB resorted to market borrowings in year 2008-09 to 2010-11 despite having sufficient cash balances at the time of borrowings in those years. As such, borrowings were in contravention to the recommendation of XIII FC whereas available cash balances remained invested in Treasury Bills.

In reply FD, GoB stated (August 2013) that expenditure and fiscal deficit for a year need to be seen in totality. It is not proper only to say that borrowings were made even after having availability of sufficient cash balances. FD, further stated in the Exit Conference (August 2013) that State Government normally tries to maintain a reserve of ₹ 1500 crore to ₹ 2000 crore (except in the month of March). As such, borrowings were made even though the State Government was left with sufficient cash balances. FD also stated that the situation has improved in the year 2011-12 and 2012-13.

The reply is not acceptable as treasury bill holdings (prepared fortnightly) were much more than ₹ 1500 crore each time the market loans got raised during 2008-09 to 2010-11. FD's statement regarding improvement in situation in year 2011-12 and 2012-13 further corroborates audit contention that GoB resorted to borrowing despite having sufficient cash balances in years 2008-09 to 2010-11. Thus, borrowings made by GoB during the year 2008-09 to 2010-11 were not in consonance with the recommendation of XIII FC which stipulates that available cash balances were to be utilized before resorting to fresh borrowings.

(ii) Non existence of system to watch utilisation of Market Borrowings

No specific system was found to be in place with the GoB to keep a watch over utilisation of market borrowings in Department-wise/PSU-wise/Scheme-wise manner. In absence of such watch over mechanism the utilisation/non-utilisation/retention of borrowings could not be verified in audit. FD, GoB itself has accepted (June 2013) that quantum-wise utilisation of borrowings in Department-wise/PSU-wise/Scheme-wise manner is not possible. FD, GoB reiterated its previous statement in the Exit Conference (August 2013) and further stated that only Externally Aided Projects and borrowings from NABARD are specific and scheme-wise.

(iii) Short subscription in Consolidated Sinking Fund:

As per Notification issued (30 March 2009) by GoB, contribution in Consolidated Sinking Fund (CSF) was required to be made on a modest scale of at least 0.5 per cent of outstanding liabilities as at the end of the previous year beginning with financial year 2008-09. It was found that GoB did not contribute the minimum required amount in CSF in any year during the period 2008-13. As a result, there was short contribution towards the fund by ₹ 545.25 crore during the above period as detailed below:

Table 1.33: Position of Consolidated Sinking Fund

(₹ in crore)

Year	Outstanding liabilities	Contribution			
		Year	Minimum contribution i.e. 0.5% of o/s liabilities of previous year	Amount actually contributed	Short contribution
2007-08	50989.19	2008-09	254.95	140.00	114.95
2008-09	54976.75	2009-10	274.88	140.00	134.88
2009-10	58689.91	2010-11	293.45	160.00	133.45
2010-11	62858.01	2011-12	314.29	236.43	77.86
2011-12	67811.84	2012-13	339.06	254.95	84.11
Total	295325.70		1476.63	931.38	545.25

The FD, GoB stated in the Exit Conference (August 2013) that 0.5 per cent of Public Debt is being contributed towards the CSF.

FD, GoB's reply is not correct as the contributions made in CSF are well short of 0.5 per cent of outstanding liabilities as shown in the **Table No.1.33**. It further corroborated the fact that short contributions to CSF are made which would have adverse effect in shape of resource crunch while making repayment of the borrowings at the time of their maturity. This also indicated inadequate fiscal management.

(iv) **Non creation of Guarantee Redemption Fund**

As per para 12.60 of the recommendations made by the Twelfth Finance Commission, Guarantee Redemption Fund was to be created by the States through earmarked guarantee fees. Further, as per Indian Government Accounting Standard-1 (IGAS-1), the Financial Statements of the Union Government, the State Governments and the Governments of Union Territories (with legislature) shall disclose in the notes the following details:

- Limit, if any, fixed within which the Government may give guarantee;
- Whether Guarantee Redemption or Reserve Fund exists and its details including disclosure of balance available in the Fund at the beginning of the year, any payments made and balance at the end of the year.

GoB did not create Guarantee Redemption Fund as recommended by the Twelfth Finance Commission. Guarantee limits were also not laid down on the security of Consolidated Fund of the State as required in IGAS-1.

FD, GoB agreed to the audit observation and stated in the Exit Conference (August 2013) that GoB has stopped giving guarantees since 1995, however, in last 2-3 years guarantees¹⁸ has been given. It was also assured that creation of Guarantee Redemption Fund is under consideration of the State Government and would be created soon.

1.11 Fiscal Imbalances

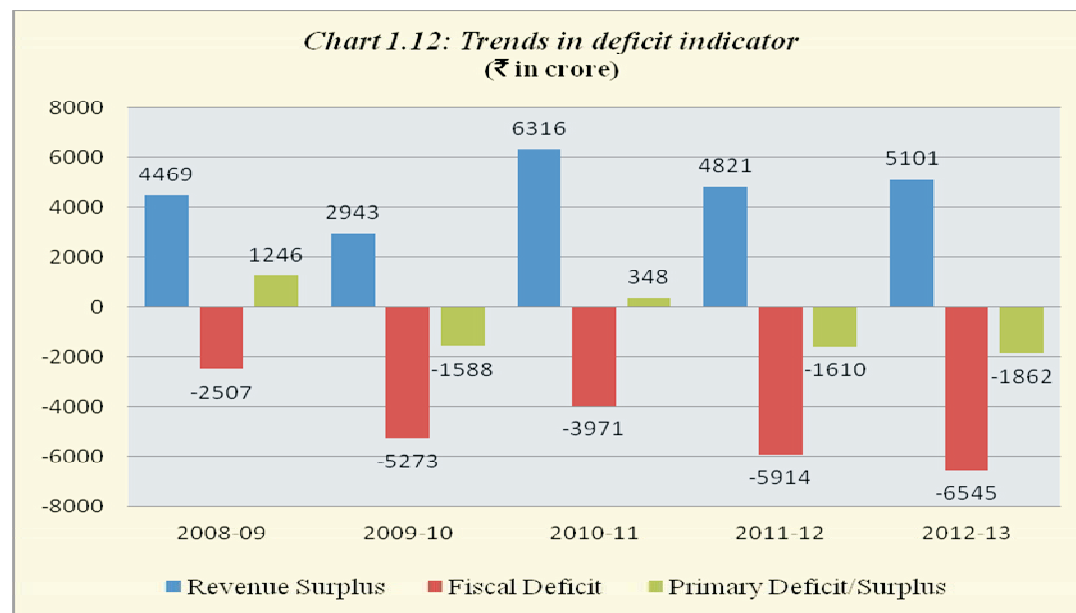
Three key fiscal parameters—revenue, fiscal and primary deficits, indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section represents the trend, nature, magnitude and the manner of financing of these deficits and the assessment of the actual levels of revenue

¹⁸ During the year 2010-11 Bihar State Electricity Board; ₹194.58 crore and during 2011-12 -Bihar State Food and Civil Supplies Corporation; ₹500.00 crore, Bihar State Minorities Financial Corporation; ₹4.38 crore.

and fiscal deficits *vis-a-vis* targets set for the financial year 2012-13 under FRBM Act/Rules.

1.11.1 Trends of Deficits

The State achieved revenue surplus in 2008-09 and remained in revenue surplus thereafter. **Chart 1.12** indicates that while the actual surplus decreased by ₹ 1495 crore in 2011-12 it increased by ₹ 280 crore in 2012-13 compared to the previous year. The revenue surplus of ₹ 5101 crore during 2012-13 was significantly less than the States' Budget projection of ₹ 7089 crore.



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

Table 1.34: Trends in deficit indicators over the period 2008-13

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue surplus/GSDP	0.031	0.018	0.032	0.020	0.017
Fiscal deficit/GSDP	0.018	0.032	0.020	0.024	0.022
Primary surplus/GSDP	0.009	(-)0.010	0.002	(-)0.007	(-)0.007

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

It would be seen from the **Chart 1.12** & **Table 1.34** that during the year, the revenue surplus increased by ₹ 280 crore whereas fiscal deficit increased from ₹ 5914 crore in 2011-12 to ₹ 6545 crore in 2012-13. The ratio of fiscal deficit to GSDP (0.022) was however well within three *per cent* as laid down in its FRBM Act and projections recommended by the ThFC's for the year 2012-13.

Further, the primary deficits of ₹ 1610 crore (2011-12) increased to ₹ 2117 crore (2012-13).

1.11.2 Composition of Fiscal Deficit and its Financing Pattern

The financing pattern of fiscal deficit has undergone a compositional shift as reflected in the **Table 1.35**.

Table 1.35: Components of Fiscal Deficit and its Financing Pattern

Particulars		(₹ in crore)				
		2008-09	2009-10	2010-11	2011-12	2012-13
Composition of Fiscal Deficit		(-)2506.97	(-)5273.01	(-)3970.31	(-)5914.90	(-)6545.26
1	Revenue Deficit/ Revenue Surplus	4469.11	2942.66	6316.40	4820.68	5100.51
2	Net Capital Expenditure	(-)6436.35	(-)7332.09	(-)9195.94	(-)8852.01	(-)9584.52

Particulars		2008-09	2009-10	2010-11	2011-12	2012-13
3	Net Loans and Advances	(-)539.73	(-)883.58	(-)1090.77	(-)1883.57	(-)2061.25
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	3757.12	2501.91	1707.78	2593.90	5763.88
2	Loans from GoI	(-)278.81	(-)49.35	316.03	361.08	23.30
3	Special Securities Issued to NSSF	529.08	1472.52	1533.39	505.56	292.87
4	Loans from Financial Institutions	238.22	226.32	285.20	244.96	403.96
5	Small Savings, PF etc.	144.41	(-)262.86	252.70	(-)2.13	(-)215.55
6	Deposits and Advances	(-)690.52	(-)134.15	50.94	932.91	2199.05
7	Suspense and Miscellaneous	395.96	(-)290.89	1830.68	1238.71	(-)1936.34
8	Remittances	(-)221.57	(-)54.82	79.96	(-)36.82	19.51
9	Reserve Fund	293.24	(-)41.69	23.72	335.93	275.94
10	Inter State Settlement	-	-	-	74.02	-
11	Overall Surplus/Deficit	1660.14	(-)1906.02	6080.37	6248.12	6826.62
12	Increase / decrease in cash balance#			(-)2110.06	333.22	281.36
13	Gross Fiscal Deficit			3970.31	5914.90	6545.26
* All these figures are net of disbursements/outflows during the year.						
# Cash balance (Deposit with Reserve bank and remittance in treasury)						

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

Table 1.36: Receipts and Disbursements financing the fiscal deficit during 2012-13
(₹ in crore)

Sl. No.	Particulars	Receipts	Disbursements	Net
1	Market Borrowings	7100.00	1336.12	5763.88
2	Loans from GoI	508.02	484.72	23.30
3	Special Securities Issued to National Small Savings Fund	1005.51	712.64	292.87
4	Loans from Financial Institutions	940.43	536.47	403.96
5	Small Savings, PF etc.	1296.09	1511.64	(-)215.55
6	Deposits and Advances	15514.80	13315.75	2199.05
7	Suspense and Miscellaneous	83703.06	85639.40	(-) 1936.34
8	Remittances	8927.17	8907.66	19.51
9	Reserve Funds	799.33	523.39	275.94
10	Inter State Settlement			-
11	Overall surplus (-) deficit (+)			6826.62
12	Increase / decrease in cash balance			281.36
13	Gross Fiscal Deficit			6545.26

(Source: Finance Accounts of the State for the year 2012-13)

The fiscal deficit, which represents the borrowing of the Government and its resource gap increased from ₹ 5914.90 crore in 2011-12 to ₹ 6545.26 crore in 2012-13 but was less than that projected in the Budget estimate (₹ 7569.43 crore). During 2011-12 fiscal deficit was 66.82 per cent of Capital Expenditure but it increased to 68.29 per cent during 2012-13. There was decrease in loans from GoI, special securities issued to NSSF, small savings, PF etc., Suspense and Miscellaneous and Reserve fund over previous year. However there was increase in loans from financial institution, Deposits and Advances and remittances.

1.11.3 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) indicate the quality of deficit in the States' Finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) was not having any asset backup. The bifurcation of the primary deficit (**Table 1.37**) indicates the extent to which the deficit was on account of enhancement in capital expenditure which might be desirable to improve the productive capacity of the State's economy.

Table 1.37: 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)
2008-09	32992	24759	6436	551	31746	8233	(+)1246
2009-10	35540	28899	7332	897	37128	6641	(-)1588
2010-11	44544	33897	9196	1103	44196	10647	(+)348
2011-12	51343	42195	8852	1906	52953	9148	(-)1610
2012-13	59592	50038	9585	2086	61709	9554	(-)2117

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

Table above indicates that the Government had a primary revenue surplus of ₹ 8233 crore in 2008-09 which decreased to ₹ 6641 crore in 2009-10, but increased to ₹ 10647 crore in 2010-11 and finally decreased to ₹ 9148 crore and ₹ 9554 crore in 2011-12 and 2012-13 respectively. This was due to increase in primary expenditure (which includes primary revenue expenditure, capital expenditure and loans and advances) from ₹ 31746 crore in 2008-09 to ₹ 61709 crore in 2012-13. 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 ₹ 1246 crore in 2008-09, it turned into primary deficit of ₹ 2117 crore in 2012-13.

1.12 Conclusion

Revenue Receipts

Revenue receipts during the year increased by 16.07 per cent (₹ 8246.49 crore). The increase was due to increase in own tax revenue by 28.87 per cent (₹ 3640.98 crore) and State's share of Union taxes and duties by 14.19 per cent (₹ 3965.16 crore). State's own tax revenue (₹ 16253.08 crore) also exceeded the Budget estimate (₹ 15695.30 crore) and ThFC assessment (₹ 10537.39 crore) by 3.55 per cent (₹ 557.78 crore) and 54.24 per cent (₹ 5715.69 crore) respectively. Non-tax revenue (₹ 1135.27 crore) increased by 27.58 per cent (₹ 245.41 crore) over the previous year. However, the Non-tax revenue was 63.87 per cent (₹ 2007.19 crore) below the Budget estimate

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.

(₹ 3142.46 crore) and 40.48 *per cent* (₹ 772 crore) below the assessment made by ThFC (₹ 1907.27 crore).

Revenue Expenditure

Revenue expenditure (₹ 54466.15 crore) during the year increased by 17.13 *per cent* on General services by 5.16 *per cent* (₹ 915.39 crore), Social Services by 23.38 *per cent* (₹ 4378.59 crore) and Economic Services by 26.62 *per cent* (₹ 2672.14 crore). However, Revenue expenditure during the year was 10.65 *per cent* (₹ 6493.12 crore) below the budget estimate (₹ 60959.27 crore) for the year 2012-13.

Capital Expenditure

Capital expenditure increased by 8.28 *per cent* (₹ 732.51 crore) during the year.

Fund transferred to State Implementing Agencies

The Government of India (GoI) has been transferring a sizeable quantum of funds directly to the State implementing agencies for implementation of various schemes/programmes in social and economic sectors, which are recognised as critical. As in the present mechanism these funds are not routed through the State Budget/State Treasury System and hence do not find mention in the Finance Accounts of the State. During the year 2012-13 the Government of India directly transferred ₹ 8314.38 crore to the State implementing agencies which was less than the previous year by seven *per cent*. The major recipients were District Rural Development Agencies (DRDA) (₹ 3082.53 crore i.e. 37 *per cent*), Bihar Shiksha Pariyojana Parishad (₹ 2754.62 crore i.e. 33 *per cent*), Pradhan Mantri Gram Sadak Yojna (₹ 959.75 crore i.e. 12 *per cent*) and National Rural Health Mission (₹ 757.95 crore i.e. nine *per cent*).

Investments and returns

The State Government had invested ₹ 941.17 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operative Institutions. Of ₹ 941.17 crore invested by the State Government in the share capital of different entities, ₹ 420.71 crore in 40 Government companies, ₹ 380.97 crore in 16 co-operative institutions, ₹ 105.63 crore in three statutory corporations, ₹ 30.18 crore in one Rural Bank, ₹ 3.68 crore in nine other joint stock companies and partnerships and local bodies was invested. Government invested ₹ 20.35 crore during the year. Out of this ₹ 17.70 crore was invested in Government companies.

Fiscal Imbalances

Fiscal liabilities of the State increased by ₹ 54976.75 crore in 2008-09 to ₹ 76503.07 crore in 2012-13. During the year, the revenue surplus increased by ₹ 280 crore whereas fiscal deficit increased from ₹ 5914 crore in 2011-12 to ₹ 6545 crore in 2012-13. The ratio of fiscal deficit to GSDP (0.022) was however well within three *per cent* as laid down in its FRBM Act and projections recommended by the ThFC for the year 2012-13.

Review on Market borrowings

GoB resorted to market borrowings during the year 2008-09 to 2010-11 despite having sufficient cash balances/holding of Treasury Bills in those years.

GoB was unable to evolve a system to keep a watch over utilisation/ non-utilisation/retention of market borrowings.

GoB also did not contribute the minimum required amount (0.5 *per cent*) of total outstanding liabilities in the Consolidated Sinking Fund created for redemption of outstanding liabilities during the period 2008-13.

GoB did not create Guarantee Redemption Fund as recommended by the Twelfth Finance Commission. Guarantee limits were not laid down on the security of Consolidated Fund of the State as required in IGAS-1.

1.13 Recommendations

The Government should:

- Step up asset creation by enhancing the share of Capital expenditure to increase the growth prospects of the State;
- Take initiative to get the incomplete projects completed to avoid time and cost over runs;
- Create a data bank on guarantees given by the Government, guarantee fee/commission, guarantee invoked/discharged etc.;
- Create Guarantee Redemption Fund and also lay down guarantee ceiling limits;
- Evolve a system to keep a watch over utilisation/non-utilisation/ retention of the market borrowings and resorts to need based borrowings and maintain only the basic minimum cash surplus as buffer in consonance with recommendation of ThFC.