Chapter-1

FINANCES OF THE STATE GOVERNMENT

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Profile of Jharkhand

The State of Jharkhand, which was created in November 2000 by dividing the State of Bihar, has an area of 79,714 sq km. It is the 15th largest State of the country in terms of geographical area. As indicated in ***Appendix 1.1 Part-A*** the State's population increased from 2.69 crore in 2001 to 3.30 crore in 2011. The population growth during the last decade (2003-04 to 2012-13) was 19.13 *per cent*. The percentage of population below the poverty line was 40.4 *per cent* as compared to the all-India average of 21.92 *per cent*. The State's Gross State Domestic Product (GSDP) in 2012-13 at current prices was ₹ 1,56,781 crore. The State's literacy rate increased from 44 *per cent* (as per 2001 census) to 67.63 *per cent* (as per 2011 census). The per capita income of the State stood at ₹ 48,752 during 2012-13.

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 State's economy as it indicates the standard of living of the State's population. The trend in the annual growth of India's GSDP at current prices is indicated below:

Year	2008-09	2009-10	2010-11	2011-12	2012-13
India's GDP (₹ in crore)	53,03,567	61,08,903	72,66,967	83,53,495	94,61,013
Growth rate of GDP (percentage)	15.75	15.18	18.96	14.95	13.26
State's GSDP* (₹ in crore)	87,794	1,00,621	1,25,824 (P)	1,40,558(Q)	1,56,781(A)
Growth rate of GSDP (percentage)	4.6	14.6	25.0	11.7	11.5

**Source: Directorate of Economics and Statistics, Govt. of Jharkhand.*
P=Provisional Estimate, Q=Quick Estimate, A=Advanced Estimate.

The GSDP of Jharkhand State grew at 11.5 *per cent* during 2012-13 against the Thirteenth Finance Commission (TFC) projection of 14.5 *per cent*. The GSDP growth during last two years was lower than the growth of GDP of India. However, the Compound Annual Growth Rate (CAGR) of GSDP of the Jharkhand (15.5 *per cent*) was almost same as the CAGR of GDP of India (15.6 *per cent*) during 2008-13.

1.1 Introduction

This Chapter provides a broad perspective of the finances of the Government of Jharkhand during the year 2012-13 and analyses critical changes in the major fiscal aggregates in relation to the previous year, keeping in view the overall trend during the last five years. The analysis has been based on audit of the State Finance Accounts 2012-13 and information obtained from the State Government. The structure and form of Government accounts have been explained in ***Appendix 1.1 Part B*** and the layout of the Finance Accounts is depicted in ***Appendix 1.1 Part C.***

The methodology adopted for assessment of the fiscal position of the State is given in ***Appendix 1.2 Part A.*** The targets set under Fiscal Responsibility and Budgetary Management Act are given in ***Appendix 1.2 B***. Time series data on State Government finances for last five years is given in ***Appendix 1.3.***

1.1.1 Summary of Fiscal Transactions in 2012-13

Table 1.1 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 Part A*** provides an abstract of receipts and disbursements as well as the overall fiscal position during the year 2012-13.

Table 1.1: 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	**22,419.45**	**24,769.56**	**Revenue Expenditure**	**20,991.58**	**15,656.61**	**7743.26**	**23,399.87**
Tax revenue	6953.89	8223.58	General Services	7845.56	8474.55	221.94	8696.49
Non-Tax revenue	3038.22	3535.63	Social Services	7287.03	4238.37	4070.22	8308.59
Share of Union Taxes/Duties	7169.93	8188.14	Economic Services	5858.99	2943.69	3451.10	6394.79
Grants from Government of India	5257.41	4822.21	Grants-in-aid and Contributions	-	--	--	--
Section –B: Capital							
Misc. Capital Receipts	**-**	**-**	**Capital Outlay**	**3159.37**	**67.38**	**4151.05**	**4218.43**
Recoveries of Loans and Advances	**23.42**	**43.11**	**Loans and Advances disbursed**	**217.10**	**57.11**	**543.70**	**600.81**
Inter State Settlement			**Inter State Settlement**	**75.40**	**100.00**		**100.00**
Public Debt Receipts*	**2671.22**	**5199.00**	**Repayment of Public Debt**	**1639.01**	**2183.06**	**-**	**2183.06**
Transfers to Contingency Fund	**-**	**-**	**Expenditure from Contingency Fund**	**-**	**-**	**-**	**-**
Public Account Receipts#	**10,813.40**	**14,494.71**	**Public Account Disbursements#**	**9727.77**	**13,416.31**	**-**	**13,416.31**
Opening Cash Balance	**(-)0.41**	**116.85**	**Closing Cash Balance**	**116.85**	**704.75**	**-**	**704.75**
Total	**35,927.08**	**44,623.23**	**Total**	**35,927.08**	**32,185.22**	**12,438.01**	**44,623.23**

Source: Finance Accounts for the year 2011-12 and 2012-13

**Excluding net transactions under Ways and Means advances and overdraft.*

#Figures do not include transactions under 'Other Accounts' such as Cash Balance Investment, etc.

The significant changes during 2012-13 as compared to the previous year are as under:

- Revenue Receipts increased by ₹ 2350 crore (10 *per cent*) over that of the previous year. The increase was due to increase in Tax Revenue by ₹ 1270 crore (18 *per cent*), Non-Tax Revenue by ₹ 498 crore (16 *per cent*) and State's Share of Union Taxes and Duties by ₹ 1018 crore (14 *per cent*) which was offset by decrease in Grants-in-aid by ₹ 436 crore (eight *per cent*) over the previous year.
- Against the normative assessment of Tax Revenue (₹ 9544 crore) and Non-Tax Revenue (₹ 3814 crore) made by the TFC the actual tax and non-tax receipts of the State were ₹ 8224 crore (86 *per cent*) and ₹ 3536 crore (93 *per cent*) respectively. Thus, on both counts it was below the normative projection made by the TFC.

- Revenue Expenditure increased by ₹ 2408 crore (11 *per cent*) due to increase in expenditure on General Services (₹ 850 crore), Social Services (₹ 1022 crore) and Economic Services (₹ 536 crore). However, it was lower than the budget estimates of ₹ 27801 crore.
- Capital Expenditure increased by ₹ 1059 crore (34 *per cent*) in 2012-13 over the previous year. Increase was mainly under Transport.
- Recovery of Loans and Advances increased from ₹ 24 crore in 2011-12 to ₹ 43 crore in 2012-13.
- Public Debt receipts increased by ₹ 2528 crore (95 *per cent*) while its repayment increased by ₹ 544 crore (33 *per cent*) over the previous year.
- Public Account receipts increased by ₹ 3682 crore (34 *per cent*) against increase in disbursements by ₹ 3689 crore (38 *per cent*).
- The net impact of these transactions was an increase of ₹ 587.90 crore in the cash balance at the end of 2012-13 over the previous year.

1.1.2 Review of the fiscal situation

The Government of Jharkhand enacted the Jharkhand Fiscal Responsibility and Budget Management (FRBM) Act, 2007 for ensuring fiscal stability, debt sustainability and greater transparency in the fiscal operation of the Government. Under the Act, the State Government was to eliminate the Revenue Deficit by the end of March 2009 and restrict the Fiscal Deficit up to three *per cent* of the estimated Gross State Domestic Product (GSDP). The TFC recommended a new and revised road map for fiscal consolidation thereby linking all grants and debt relief facilities for achievement of the targets.

Accordingly, the State revised some of its key fiscal targets in the FRBM (Amendment) Act, 2011 and 2012 as well as in its Medium Term Fiscal Plan (MTFP). The revised targets laid down in FRBM Acts, 2011 and 2012 of the State were (i) reducing its Revenue Deficit to 'nil' at the end of 31 March 2012 (ii) the Fiscal Deficit at three *per cent* of the GSDP by the end of March 2012 and (iii) Debt-GSDP ratio at 27.8 *per cent* in 2012-13.

Table 1.2: Major fiscal variables

(*in per cent*)

Fiscal variables	2012-13				
	XIII FC target for the State	Target as prescribed in FRBM Act	Target as per Budget	Projections in MTFP	Actuals
Revenue Surplus w.r.t GSDP	Nil	Nil	2.95	3.32	0.9
Fiscal Deficit/GSDP	3.00	3.00	1.92	2.15	2.2
Ratio of total outstanding debt of the Government to GSDP	27.8	27.8	Not available in the budget	25.0	22.2

The State achieved the targets set in the FRBM Act by eliminating the Revenue Deficit in 2006-07 by turning the deficit into a Revenue Surplus (₹ 946 crore) which consistently improved to ₹ 1370 crore in 2012-13, except in 2009-10 when there was a Revenue Deficit of ₹ 10 crore. However, the

budget estimates and the MTFP targets of revenue surplus to GSDP at 2.95 *per cent* and 3.32 *per cent* respectively were not achieved in 2012-13.

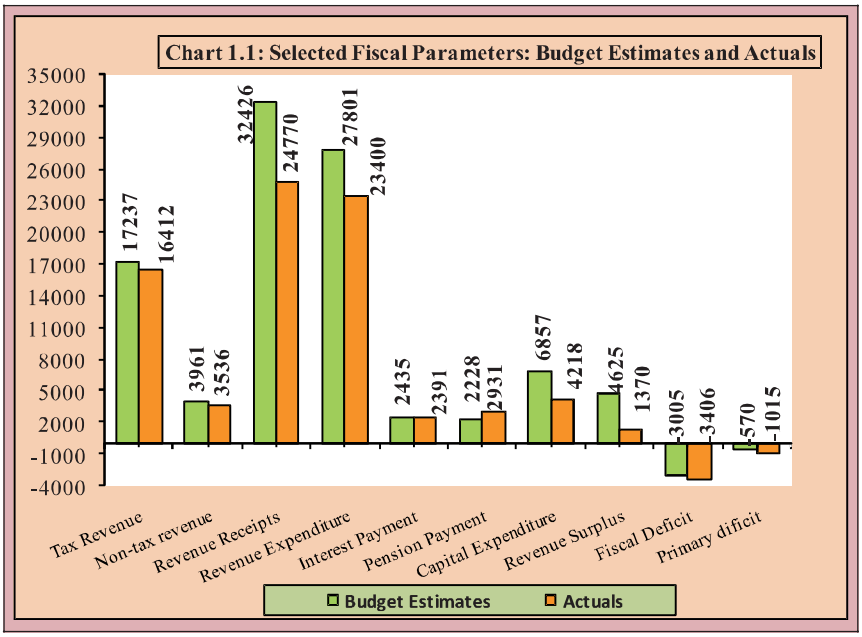
The percentage of Fiscal Deficit (₹ 3406 crore) to GSDP at 2.2 *per cent* was within the limit of three *per cent* estimated under FRBM Act and TFC projection during 2012-13. It was close to the MTFP target of 2.15 *per cent*.

The Debt-GSDP ratio of the State was 22.2 *per cent* during 2012-13 which was well within the estimate of 27.8 *per cent* of FRBM Act and TFC. Debt-GSDP was also very much within the MTFP target of 25 *per cent* for the year.

1.1.3 Budget estimates and actual

The budget papers presented by the State Government provide 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 Estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives due to a variety of causes, some within the control of the Government and some beyond the control of the Government.

Chart 1.1 presents a comparative analysis of the budget estimates and actuals for some important fiscal parameters for 2012-13.



The above chart shows that actual receipts and expenditures, except pension payments, were less than the budget estimates prepared by the State Government for 2012-13. The shortfall in actual Revenue Receipts (by ₹ 7656 crore) was mainly due to less receipt of Grants-in-aid from Government of India (by ₹ 6406 crore) than the budget estimates. The decrease in actual Revenue Expenditure (by ₹ 4401 crore) was due to decrease in actual expenditure incurred on Social Services (by ₹ 3302 crore) and Economic Services (₹ 1238 crore) during 2012-13.

The Capital Expenditure of the State was less than the Budget Estimates by ₹ 2639 crore due to less expenditure on Social Services (by ₹ 837 crore) and Economic Services (by ₹ 1669 crore) against what was budgeted, which is a matter of concern for the State.

1.1.4 Gender Budgeting

As per budget document it was observed that gender budgeting was not introduced in the State budget. However, in budget speech and Appropriation Accounts of the State it was noticed that the State Government made provisions for women and girls during 2012-13 in the State budget, as per details given below:

Table 1.3: Budget provision and expenditure for women

(₹ in crore)

Scheme	Budget Provision	Expenditure	Surrender
BitiyaVarsh	2.00	nil	2.00
Kishori Shakti Yojna	2.20	nil	2.20
Rajiv Gandhi Scheme for Empowerment of Adolescent Girls	57.54	8.85	48.69
Indira Gandhi Matritwa Sahyog Yojna	9.00	3.09	5.91
Mukhyamantri KanyadanYojna	15.00	12.83	2.17

Source: Detailed Appropriation Accounts

- The State Government decided to celebrate the year 2012 as 'BitiyaVarsha' for which the Government announced a new scheme named Mukhyamantri Lakshmi Laadly Yojna. However, the entire budget provided (₹ 2 crore) during 2012-13 for the same was surrendered. Hence, the intended benefit was not made available to girl children of the State.
- Budgeted provision of ₹ 2.20 crore for the Kishori Shakti Yojna was also entirely surrendered during the year 2012-13.
- Out of total ₹ 15.00 crore budgeted for Mukhyamantri Kanyadaan Yojna during 2012-13, expenditure was ₹ 12.83 crore was spent.

1.1.5 Major Policy initiatives in the budget

To improve its revenues the State Government revised the rates of State tax and Non-tax receipts during the year 2012-13. As per budget speech of the State Finance Minister following steps were taken in this regard:

- Increase the rate of VAT in the State from 12.5 *per cent* to 14 *per cent* through which it was expected to improve receipts by ₹ 150 crore.
- Implementation of professional tax with estimated receipt of ₹ 50 crore.
- Electricity Duty for private nursing homes, shopping malls etc. was to be fixed at 20 paise per unit by which ₹ 20 crore was estimated to be received as additional revenue.

- Taxes on Tobacco products increased from 14 *per cent* to 20 *per cent* and TDS from contractors of tobacco products increased from two *per cent* to four *per cent* to raise additional revenue of ₹ 50 crore during 2012-13.

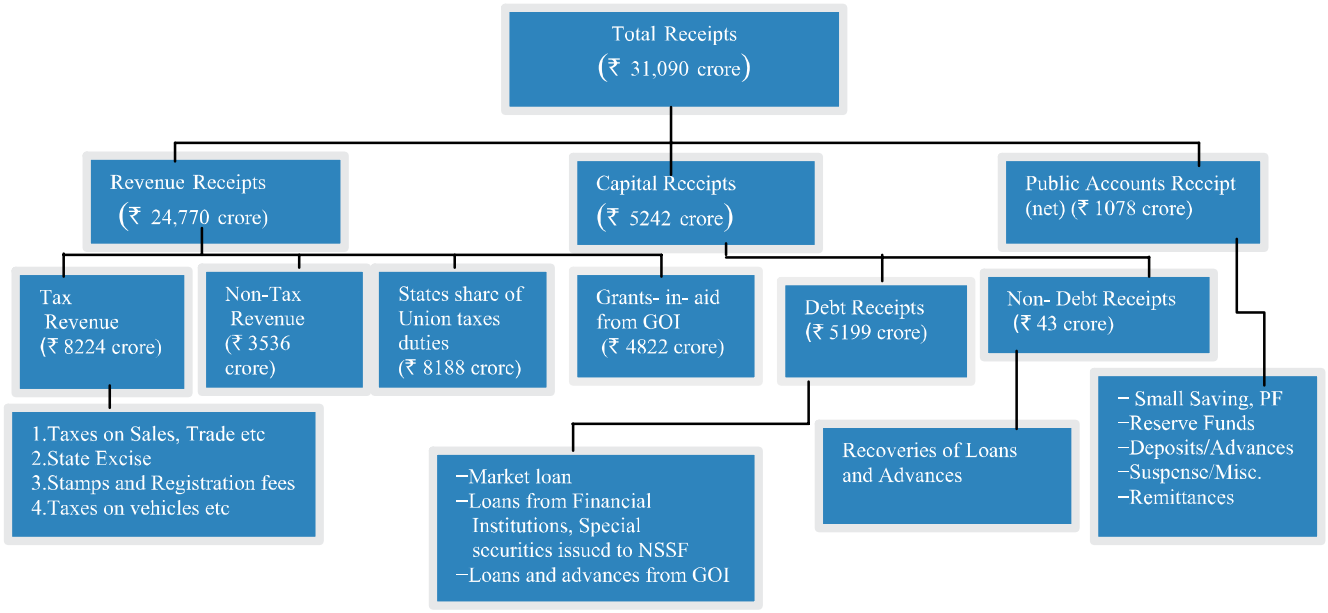
1.2 Resources of the State

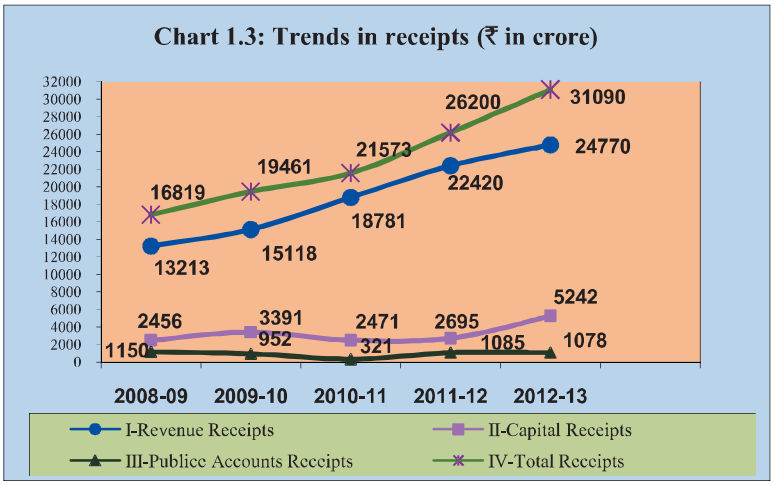
1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue Receipts consist of Tax Revenues, Non-Tax Revenues, State's Share of Union Taxes and Duties and Grants-in-aid from the Government of India (GOI). Capital receipts comprise Miscellaneous Capital Receipts such as proceeds from disinvestments, recoveries of Loans and Advances, Debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and Loans and Advances from GOI. Besides the funds available in the Public Accounts after disbursement is also utilised by the Government to finance its deficit. **Table 1.1** (at page 2) presents the receipts and disbursements of the State during the current year 2012-13 as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trend in various components of the receipts of the State during the period 2008-13, the **Chart 1.3** depicts the composition of resources of the State during the current year 2012-13.

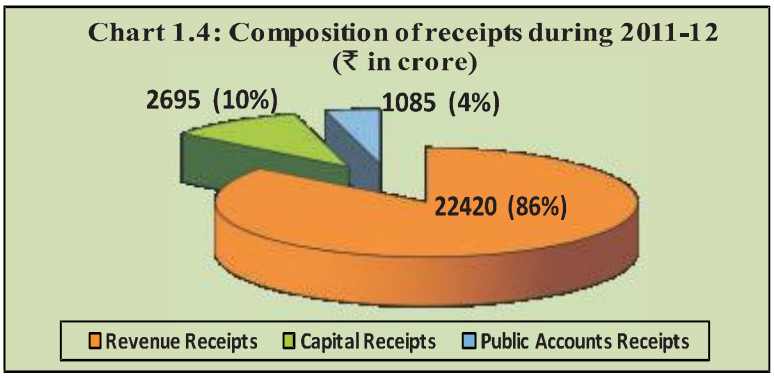
Flow chart showing the components and sub-components of resources is as under:

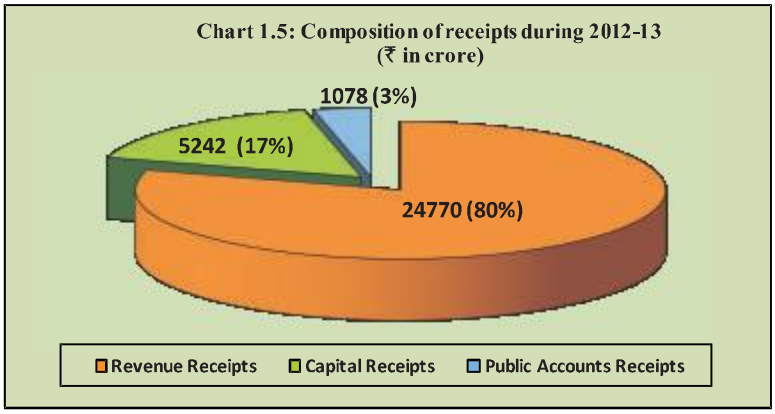
Chart 1.2: components and sub-components of resources





Charts 1.4 and 1.5 depict the composition of resources of the State during 2011-12 and 2012-13 respectively.





- The Total Receipts of the State increased from ₹ 16,819 crore in 2008-09 to ₹ 31,090 crore in 2012-13. The growth rate of Total Receipts was 19 *per cent* during 2011-12 and 2012-13.
- Share of Revenue Receipts to Total Receipts fluctuated between 78 *per cent* and 87 *per cent* during 2008-13. It decreased from 87 *per cent* in 2010-11 to 86 *per cent* in 2011-12 and 80 *per cent* in 2012-13 due to comparatively higher growth of Capital Receipts.
- The Debt Capital Receipts (Capital receipts minus recovery of Loans and Advances) increased from ₹ 2437 crore in 2008-09 to ₹ 5199 crore

in 2012-13. The Debt Capital receipts increased by 95 *per cent* in 2012-13 due to 91 *per cent* increase in Internal Debt over the previous year. The CAGR of Debt Capital Receipts was 20.9 *per cent* during the period 2008-13.

- Net Public Account receipts decreased from ₹ 1150 crore (four *per cent* of Total Receipts) in 2011-12 to ₹ 1078 crore (three *per cent* of Total Receipts) in 2012-13.

1.2.2 Funds transferred to State implementing agencies outside the State Budget

The Central Government has been transferring sizeable quantum of funds directly to the State Implementing Agencies[1] for implementation of various schemes/programmes in Social and Economic sectors, which are recognised as critical. In the present mechanism these funds are not routed through the State Budget/State Treasury System. Hence, expenditure of these funds has not been mentioned in the Finance Accounts of the State. As such, the Annual Finance Accounts do not provide a complete picture of the resources of the State. To present the holistic picture on availability of aggregate resources, funds directly transferred to State implementing agencies are presented in **Table 1.4.**

During the year 2012-13 Central funds of ₹ 2621.91 crore were transferred directly to the State implementing agencies. The programmes assisted by Government of India whose funds were transferred and the concerned State Implementing Agencies are presented in **Table 1.4.**

Table 1.4: Funds released by GOI directly to State Implementing Agencies

(₹ in crore)

Programme/scheme	Implementing agency in the State	Funds transferred directly by GoI	
		2011-12	2012-13
Mahatma Gandhi National Rural Employment Guarantee scheme	District Rural Development Agency	917.77	0.00
	Jharkhand State Rural Employment Guarantee Council	0.00	809.17
Indira AwaasYojana	District Rural Development Agency	215.48	138.27
Swarnjayanty Gram SwarojgarYojana; District Rural Development Agency (Administration); Integrated Watershed Management Programme; AAJEEVIKA	District Rural Development Agency	84.67	10.23
SarvaShikshaAbhiyan	Jharkhand Education Project Council	579.03	561.84

[1] State Implementing Agencies include any organisation/institution including non-Government organisation which is authorised by the State Government to receive funds from the Government of India for implementing specific programmes in the State, *e.g.* State Implementation Society for SSA, State Health Mission for NRHM etc.

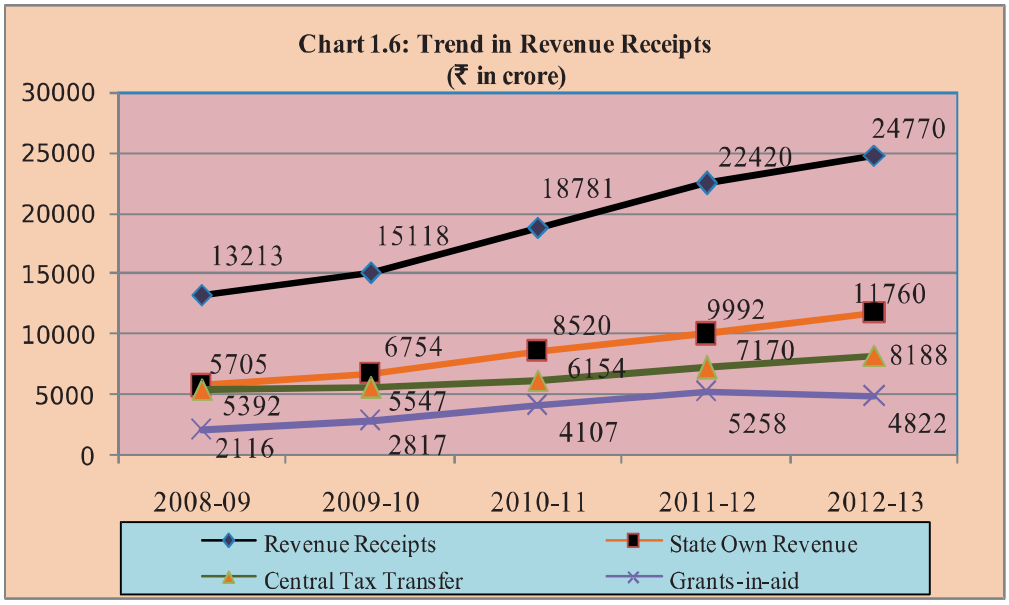
Programme/scheme	Implementing agency in the State	Funds transferred directly by GoI	
		2011-12	2012-13
National Rural Health Mission; Human Resource for Health; Information, Education and Communications	(i) Jharkhand Rural Health Mission Society; TB Control Society and Blindness Control Society; (ii) Jharkhand AIDS Control Society.	609.65	281.32
National Rural Drinking Water Programme; Central Rural Sanitation Programme	Jharkhand State Water and Sanitation Mission	220.82	307.23
Member of Parliament Local Area Development scheme	District Magistrates	69.00	88.50
Schemes implemented by NGOs and other societies	NGOs and other Societies	1498.00	425.35
Total		**4194.42**	**2621.91**

(Source: Appendix-VII of Finance Accounts)

Direct transfer of funds from the GoI to State implementing agencies ran the risk of improper utilisation of funds by these agencies. Unless uniform accounting practices are followed by all these agencies, with proper documentation and timely reporting of expenditure to the State Government and the Accountant General (A&E), Jharkhand, it would be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts consist of its Own Tax Revenue, Non-Tax Revenues, Central Tax transfers and Grants-in-aid contribution from GOI. The trends and composition of Revenue Receipts over the period 2008-13 are presented in ***Appendix 1.3*** and also depicted in **Chart 1.6**.



- During 2012-13, the Revenue Receipts grew at 10.48 *per cent* over the previous year. However, in comparison to the budget estimate, the Revenue Receipts was less by ₹ 7656 crore during 2012-13. The CAGR of Revenue Receipts during 2008-13 was 17.0 *per cent*.
- Own Tax Revenue was about two times of Non-tax Revenue during the period 2008-11, which increased to 2.3 times during 2011-13.
- During 2012-13, *53 per cent* of total Revenue Receipts came from Central Tax Transfer and GoI grants, while State's Own Resources contributed the balance 47 *per cent*.
- During the year, total Revenue Receipts (₹ 24,770 crore) comprised of State's Own Tax Revenue (OTR) ₹ 8224 crore (33 *per cent*), Non-Tax Revenue (NTR) ₹ 3536 crore (14 *per cent*), Central Tax transfer (CTT) ₹ 8188 crore (33 *per cent*) and Grants-in-aid ₹ 4822 crore (20 *per cent*). The receipts under OTR, NTR and CTT grew at 18 *per cent*, 16 *per cent* and 14 *per cent* respectively during 2012-13 over previous year whereas receipts under Grants-in-aid decreased at eight *per cent* during 2012-13 over the previous year.

The trend of Revenue Receipts relative to GSDP is presented in **Table 1.5**.

Table 1.5: Trends in Revenue Receipts relative to GSDP

(₹ in crore)

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Receipts (RR) (₹ in crore)	**13,213**	**15,118**	**18,781**	**22,420**	**24,770**
Rate of growth of RR (*Per cent)*	9.9	14.4	24.2	19.4	10.5
R R/GSDP (*Per cent)*	15.1	15.0	14.9	16.0	15.8
State's Own Tax / GSDP	4.3	4.5	4.5	4.9	5.2
Growth rate of GSDP	4.6	14.6	25.0	11.7	11.5
Buoyancy Ratios[2]					
Revenue Buoyancy w.r.t GSDP	2.15	0.99	0.97	1.66	0.91
State's Own Tax Buoyancy w.r.t GSDP	1.74	1.36	1.08	1.85	1.59
Revenue Buoyancy w.r.t. State's own taxes	1.24	0.72	0.90	0.90	0.57

- The growth rate of Revenue Receipts increased significantly from 9.9 *per cent* in 2008-09 to 24.2 *per cent* in 2010-11. However, it decreased to 19.4 *per cent* during 2011-12 and 10.5 *per cent* during 2012-13.
- Revenue buoyancy with respect to GSDP showed wide fluctuations ranging between 0.91 and 2.15 during 2008-13. In 2008-09, it was highest (2.15 *per cent*) due to low growth rate of GSDP (4.6 *per cent*) in comparison to the growth rate of Revenue Receipts (9.9 *per cent*). During 2012-13, growth rate of Revenue Receipts decreased at a higher rate than that of GSDP which resulted fall in revenue buoyancy from 1.66 in 2011-12 to 0.91 in 2012-13.
- The State's Own Tax (SOT) buoyancy with respect to GSDP showed wide variations between 1.08 and 1.85 during 2008-13, due to wide fluctuation in the growth rate of both GSDP and Own Tax Revenue. The buoyancy declined from 1.24 in 2008-09 to 0.72 in 2009-10, then increased to 0.90 in 2010-11 and in 2011-12. However, it was at the

[2] 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*.

lowest at 0.57 during 2012-13 due to decrease in growth rate of Own Tax over the previous year while the growth rate of GSDP remaining the same.

- The growth rate of GSDP of the Jharkhand recorded wide variation from 4.6 *per cent* to 25.0 *per cent* during the years 2008-09 to 2012-13. The GSDP grew by 11.5 *per cent* in 2012-13. However, the CAGR of the GSDP was 15.5 *per cent.*

1.3.1 State's Own Resources

As the State's share in Central Taxes and Grants-in-aid is determined on the basis of recommendations of the Finance Commission, the State's performance in mobilisation of resources was assessed in terms of its own resources comprising own tax and other non-tax sources.

The States actual tax and non-tax receipts for the year 2012-13 vis-à-vis assessment made by XIII FC and Medium Term Fiscal Plan (MTFP) (latest) are given in the **Table 1.6**

Table 1.6: Tax and non-tax receipts

(₹ in crore)

	XIII FC projections	Budget estimates	MTFP projection	Actual
Tax Revenue	9543.88	8734.49	8466 (5.4% of GSDP)	8223.58
Non-Tax Revenue	3814.44	3608.66	3136 (2% of GSDP)	3535.63

During 2012-13, the collection of State's Own Tax Revenue was ₹ 8224 crore against the normative projection made by TFC of ₹ 9544 crore and MTFP target of ₹ 8446 crore. The main reason for short achievement was lesser collection of Sales Tax and State Excise than estimated. The actual collection under these heads was ₹ 6422 crore and ₹ 578 crore against the budget estimate of ₹ 6650 crore and ₹ 700 crore respectively during the year.

The Own Tax to GSDP ratio in 2012-13 (5.2 *per cent*) was significantly less than the TFC norms of 6.50 *per cent* and MTFP target of 5.4 *per cent* for the year.

The Non-tax revenue of the State (₹ 3536 crore) was less than TFC projection of ₹ 3818 crore for the year 2012-13, but was higher than the MTFP target of ₹ 3136 crore.

1.3.1.1 Tax Revenue

The gross collection in respect of major taxes and duties are given in **Table 1.7.**

Table 1.7: Components of Tax Revenue

(₹ *in crore*)

Revenue Head	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage increase during 2012-13 over previous year
Taxes on Sales, Trade, etc.	2996	3597	4473	5522	6422	16.30
State Excise	205	323	388	457	578	26.48
Taxes on Vehicles	202	234	312	392	465	18.62
Stamps and Registration Fees	192	238	328	401	492	22.69
Land Revenue	53	41	131	53	96	81.13
Taxes on Goods & Passengers	54	13	21	41	1	(-)97.56
Other Taxes	51	54	64	88	170	93.18
Total Tax Revenue	**3753**	**4500**	**5717**	**6954**	**8224**	**18.26**

Source: Finance Accounts for the respective years

The Tax Revenue of the State increased from ₹ 3753 crore in 2008-09 to ₹ 8224 crore in 2012-13. It grew by 18 *per cent* in 2012-13 over the previous year. The CAGR of Tax Revenue of the State was 21.7 *per cent* during the period 2008-13. Out of the total Tax Revenue in 2012-13, Sales Tax contributed 78 *per cent* followed by State Excise (seven *per cent*), Stamp Duty and Registration (six *per cent*) and Taxes on vehicles (six *per cent*).

Commercial Tax Department attributed the increase in tax revenue of VAT/Sales Tax during 2012-13 to effective tax administration and revision/enhancement in rate of VAT. The reason for increase in State Excise Duty in 2012-13 over the previous year was given as increase in settlement of excise retail shops and increase in the rates of different kinds of fees. Similarly, increase in Stamps and Registration Fees and Taxes on Vehicles during 2012-13 was attributed to increase in the value of land property and increase in number of vehicles registered respectively.

During 2012-13, collection of Taxes on Goods and Passengers decreased by 97.56 *per cent* over previous year due to less recovery (₹ 40 crore) of tax on entry of Goods into Local Areas.

1.3.1.2 Non-Tax Revenue

Non-Tax revenue collected during 2012-13 was ₹ 3536 crore against the normative projection of ₹ 3814 crore by the TFC for the year.

Component-wise position of Non-tax revenue is given in **Table 1.8.**

Table 1.8: Component-wise non-tax revenue

(₹ *in crore*)

Revenue Head	2008-09	2009-10	2010-11	2011-12	2012-13
Interest receipts	109.53	153.20	98.74	44.16	72.23
Dividends & Profits*	0.00	0.00	0.40	1.17	15.00
Other non-tax receipts	1842.20	2100.95	2703.75	2992.89	3448.40
Total	**1951.73**	**2254.15**	**2802.89**	**3038.22**	**3535.63**

Source: Finance Accounts for the respective years
**Dividends and Profits during 2008-10 was nil.*

The Non-Tax Revenue (NTR) constituted 15 *per cent* of the Revenue Receipts during 2008-09 to 2010-11. However, its share in Revenue Receipts remained 14 *per cent* in both 2011-12 and 2012-13. The NTR increased by 16 *per cent* in 2012-13 over the previous year mainly due to more collection under Mining and Metallurgical Industries (by ₹ 480 crore). The CAGR of Non-tax Revenue was 16.0 *per cent* during 2008-13.

1.3.2 Grants-in-aid from Government of India

The trend of release of Grants-in-aid by GOI under Non-Plan, State Plan, Centrally Sponsored and Central Plan Schemes is shown in the **Table 1.9**:

Table 1.9: Component-wise grants released by GOI

(₹ *in crore*)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Non-Plan Grants	591.91	1145.33	1281.40	1550.77	1483.41
Grants for State Plan Schemes	1054.18	982.97	1826.99	2404.61	2393.94
Grants for Central Plan Scheme	31.22	55.05	8.62	66.87	30.81
Grants for Centrally Sponsored Schemes	438.57	633.28	990.24	1235.16	914.05
Total	**2115.88**	**2816.63**	**4107.25**	**5257.41**	**4822.21**
Percentage of increase over previous year	15	33	46	28	(-)8
Total grants as a percentage of Revenue Receipts	16.01	18.63	21.87	23.45	19.47

Source: Finance Accounts of Government of Jharkhand

- During 2012-13, Grants-in-aid from GOI stood at ₹ 4822.21 crore, which decreased (by eight *per cent*) from ₹ 5257.41 crore in 2011-12.
- During 2012-13, Non-Plan grants, State Plan grants, Central Plan Scheme and grants for Centrally Sponsored Schemes decreased by ₹ 67.36 crore (4.34 *per cent*), ₹ 10.67 crore (0.44 *per cent*), ₹ 36.06 crore (53.92 *per cent*) and ₹ 321.11 crore (26 *per cent*) respectively over the previous year.
- Non-plan grants from GOI decreased from ₹ 1550.27 crore in 2011-12 to ₹ 1483.41 crore in 2012-13 mainly since grants were received under compensation to State Government for Revenue loss due to phasing out of the Central Sales Tax during 2011-12.
- During 2012-13 the State Plan grants remained nearly same as it was in 2011-12.
- No Debt relief was received by the State during 2012-13 under Debt Consolidation and Relief Facility.

1.3.3 Central Tax transfer

During 2012-13, the Central Tax transfer (CTT) was ₹ 8188 crore against ₹ 7170 crore in 2011-12. The CTT of the State increased by ₹ 1018 crore (14 *per cent*) during 2012-13 over the previous year. The increase was mainly under Corporation Tax (₹ 119 crore), Taxes on Income other than Corporation Tax (₹ 327 crore), Customs Duty (₹ 118 crore) and Service Tax (₹ 340 crore). The CTT constituted 33 *per cent* of Revenue Receipts of the State during 2012-13.

1.3.4 Optimisation of the XIII FC grants

The Thirteenth Finance Commission recommended grants to Government of Jharkhand to improve the functioning of its various departments. The financial status of some of the grants is given in **Table 1.10:**

Table 1.10: Optimisation of the XIII FC grants

(*₹ in crore*)

Sl. No.	Transfers	Grant provided on the recommendation of the TFC	Expenditure under relevant head of account	Unutilized amount
1	Home Department	74.50	74.50	0.00
2	Institutional Finance and Programme Implementation Department	23.28	0.00	23.28
3	Labour, Employment and Training Department	50.00	47.25	2.75
4	Law Department	40.47	4.96	35.51
5	High Court of Jharkhand	0.40	0.09	0.31
6	Planning & Development Department	9.60	0.00	9.60
7	Disaster Management Department	291.04	279.24	11.80
8	Rural Development Department	37.13	37.13	0.00
9	Urban Development Department	90.60	33.48	57.12
10	Water Resources Department	24.67	0.00	24.67
11	Minor Irrigation Department	2.33	0.00	2.33
12	Art, Culture, Sports and Youth Affairs Department	9.00	9.00	0.00
13	Rural Works Department	79.00	72.08	6.92
14	Panchayati Raj	357.70	361.96	-4.26
15	Primary and Public Education	308.00	308.00	0.00
16	Social Welfare, Women and Child Development Department	108.00	108.01	-0.01
	Total	**1505.72**	**1335.70**	**170.02**

Source: Detailed Appropriation Accounts

Thus, it can be seen from the **Table 1.10** above that out of the total budgeted amount of grants received by the Government under recommendations of the Finance Commission (₹ 1505.72 crore), an amount of ₹ 1335.70 crore was spent and ₹ 170.02 crore remained unutilized at the end of 2012-13. Scheme-wise details are given in ***Appendix 1.5***.

1.3.5 Forgone Revenue

1.3.5.1 Under-assessment, non levy, short levy of taxes

Scrutiny of records of 130 units of Taxes on Sales, Trade, etc., State excise, Land revenue, Taxes on Vehicles, Stamp and Registration fees, Taxes and Duties on Electricity and Mining Receipts during 2012-13, we observed 25,784 cases of under assessment, non levy, short levy etc. involving ₹ 1532.94 crore. During the year 2012-13, the departments accepted 21,063 cases amounting ₹ 568.52 crore. During the same period, the department effected recovery of ₹ 702 crore in 1024 cases (including recoveries against audit observations of previous years).

1.3.5.2 Revenue arrears

As on 31 March 2013, revenue arrears amounted to ₹ 2986.09 crore in four Departments (Finance (Commercial Taxes), State Excise, Taxes on Vehicles and Mining and Geology Department) out of which ₹ 1343.30 crore was

outstanding for more than five years. The major portion of the revenue arrears related to the Finance (Commercial Taxes) Department (₹ 1940.85 crore) and Mining and Geology Department (₹ 763.17 crore).

The total revenue arrears as on 31 March 2013 was 12 *per cent* of total revenue of the State and of States' own resources it was 25 *per cent* during 2012-13.

1.4 Capital Receipts

Apart from revenue receipts of the State, the State also received capital receipts, which comprises of proceeds from disinvestments, recovery of loans and advances given by the government, internal borrowings of the government from financial institutions and Loans and Advances from Government of India (GOI).Details of capital receipts are given in the table below:

Table 1.11: Trends in growth and composition of receipts

(₹ in crore)

Source of State's Receipts	2008-09	2009-10	2010-11	2011-12	2012-13
Capital Receipts (CR)	2456	3391	2471	2695	5242
Miscellaneous Capital Receipts	-	-	-	-	-
Recovery of Loans and Advances	19	22	24	24	43
Public Debt Receipts	2437	3369	2447	2671	5199
Rate of growth of debt capital receipts (*per cent*)	20.5	38.2	-27.4	9.2	94.6
Rate of growth of non-debt capital receipts (*per cent*)	-56.8	15.6	9.1	0.0	79.2
Rate of growth of GSDP	4.6	14.6	25.0	11.7	11.5
Rate of growth of CR (*per cent*)	18.8	38.1	-27.1	9.1	94.5

(Source: Finance Accounts of Government of Jharkhand for the respective years)

During 2012-13, Capital Receipts increased to ₹ 5242 crore against ₹ 2695 crore in 2011-12 due to increase in Public Debt Receipts. Further, Public Debt Receipts increased mainly due to significant increase in market loans from ₹ 1254 crore in 2011-12 to ₹ 3600 crore in 2012-13. The non-debt capital receipt increased due to recovery of ₹ 19.75 crore from Jharkhand State Beverage Corporation Limited. Increase in debt and non-debt capital receipts led to increase in Capital Receipts of the State.

As per Finance Accounts, proceed from disinvestment was 'nil' during 2012-13.

1.4.1 Recoveries from loans and advances

The recovery against the loans and advances given was very low. Detail of loans given and recovery received during last five years are as given below:

Table 1.12: Loans and Advances

(₹ in crore)

Years	2008-09	2009-10	2010-11	2011-12	2012-13
Opening balance of Loans	6016	6415	6713	6997	7190
Loans given	418	320	308	21	601
Recovery made	19	22	24	24	43
Closing balance of loans	6415	6713	6997	7190	7748

Jharkhand State Electricity Board (JSEB) was the major recipient of loans and advances given every year but no repayment was made against the same leading to huge balance of ₹ 7125.21 crore against JSEB. Repayment received every year was mainly against the loans and advances given to the Government servants. The CAGR of the loans given and of the closing balance of loans were 9.5 and 4.8 *per cent* respectively during the period 2008-13.

1.4.2 Debt receipts from internal sources

To fulfill its resource gap and to meet the capital expenditure, the State raises funds from the internal market. The internal market borrowings increased from ₹ 2434 crore in 2008-09 to ₹ 4960 crore in 2012-13. During 2012-13, the major contributor in internal debt was market loans (₹ 3600 crore) and loans from National Bank for Agriculture and Rural Development (₹ 750 crore). Ways and Means advances received during the year was ₹ 369 crore.

1.4.3 Loans and advances from Government of India (GOI)

Loans and advances from GoI decreased from ₹ 3 crore in 2008-09 to (-) ₹ 10 crore in 2009-10 which again increased to ₹ 132 crore in 2010-11. During 2011-12 loans from GOI again decreased to ₹ 33 crore which then increased to ₹ 239 crore in 2012-13. Loans and advances from GOI were mainly received for State Plan schemes. No fresh loans were received for Central Plan Schemes and Centrally Sponsored Schemes during 2011-12 and 2012-13.

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 under Article 266(2) of the Constitution are not subject to vote by the State legislature, are kept in Public accounts. Here the Government acts as a banker. The balance after disbursements is the fund available with the government for use. Trend in Public Accounts Receipts given in **Table 1.13**.

Table 1.13: Trends in Public Accounts Receipts

(₹ in crore)

Resources under various heads	2008-09	2009-10	2010-11	2011-12	2012-13
Public Accounts Receipts	**8335**	**8242**	**7721**	**10813**	**14495**
Small Savings, Provident Fund etc.	584	687	572	613	668
Reserve Fund	86	489	Nil	138	280
Deposits and Advances	4250	4150	3670	5236	8706
Suspense and Miscellaneous	96	204	181	306	199
Remittances	3319	2612	3298	4520	4642

Source: Finance Accounts of Government of Jharkhand for the respective years

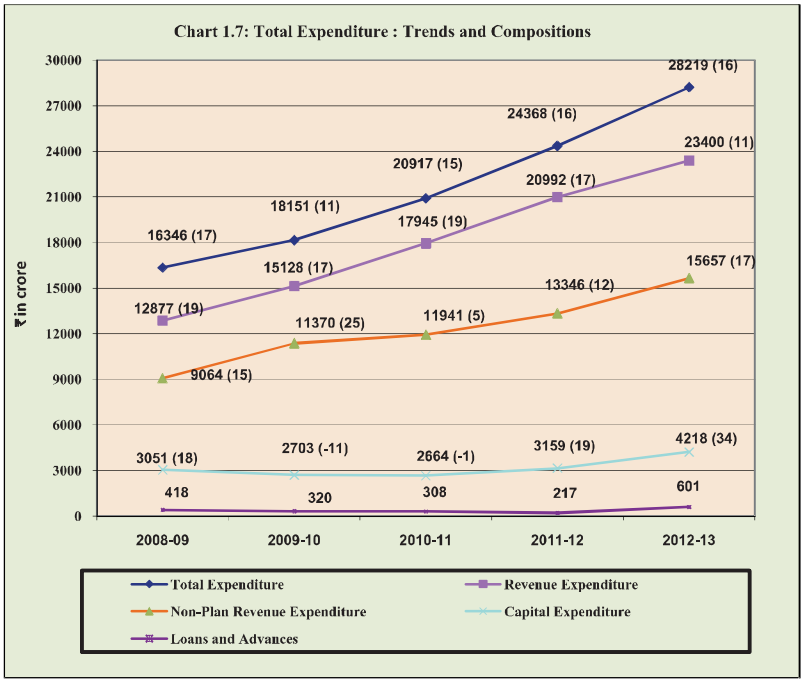
Deposit and Advances in Public Accounts Receipts increased from ₹ 5236 crore in 2011-12 to ₹ 8706 crore in 2012-13 mainly due to significant increase in State Electricity Board Working Funds by ₹ 1005 crore and Deposit of Market Loans by ₹ 2346 crore. The CAGR of Public Accounts Receipts was 14.8 *per cent* during the period 2008-13.

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 correction and consolidation process at State level is not at the cost of expenditure, especially the expenditure directed towards development of social sector.

1.6.1 Growth and Composition of Expenditure

Chart 1.7 presents the trends in Total Expenditure and its composition over a period of the last five years (2008-13).



- Over the last five years, the Compound Annual Growth Rate (CAGR) of Total Expenditure (TE) was 14.60 *per cent.* During 2012-13, the growth rate of Total Expenditure was 16 *per cent* over previous year.
- Of the TE, Revenue Expenditure constituted 83 *per cent* while Capital Expenditure constituted 15 *per cent*. Loans and Advances disbursed constituted only two *per cent* of the TE.
- Of the Total Expenditure Non-Plan expenditure and Plan expenditure constituted 56 *per cent* and 44 *per cent* respectively during 2012-13. It was 55 *per cent* and 45 *per cent* respectively in 2011-12. The increase of ₹ 3851 crore in Total Expenditure was due to increase in Non-Plan expenditure by ₹ 2356 crore and Plan expenditure by ₹ 1495 crore.

1.6.1.1 Capital Expenditure

- During 2012-13, Capital Expenditure (CE) increased to ₹ 4218 crore against ₹ 3159 crore in 2011-12. The budget of Capital Expenditure increased from ₹ 6353 crore in 2011-12 to ₹ 6857 crore in 2012-13.

Percentage of CE to Total Expenditure increased from 13 *per cent* in 2011-12 to 15 *per cent* in 2012-13. The percentage of CE to GSDP stood at 2.7 *per cent* during 2012-13 compared to 2.2 *per cent* in 2011-12.

- Capital expenditure in Education sector increased from ₹ 75.98 crore in 2011-12 to ₹ 90.76 crore in 2012-13. However, the CE was much less than ₹ 133.60 crore budgeted for the year 2012-13.
- In respect of Health and Family Welfare sector, the CE decreased from ₹ 163.53 crore in 2011-12 to ₹ 146.84 crore in 2012-13. However, the expenditure during 2012-13 was much less than ₹ 352.56 crore budgeted.
- The CE on Water Supply, Sanitation, Housing and Urban Development increased from ₹ 422.61 crore in 2011-12 to ₹ 487.43 crore in 2012-13. The budget for water supply, sanitation housing and urban development for the year was ₹ 1035.20 crore.

1.6.2 Revenue Expenditure (RE)

Revenue Expenditure (RE) accounted for 83 *per cent* of the Total Expenditure during 2012-13 as compared to 86 *per cent* during 2011-12. The RE increased (by 82 *per cent*) from ₹ 12,877 crore in 2008-09 to ₹ 23,400 crore in 2012-13. The CAGR of RE was 16.1 *per cent* during the period.

During 2012-13, RE was 15 *per cent* of GSDP. Buoyancy of RE with GSDP decreased from 1.45 in 2011-12 to 1.00 in 2012-13 because growth rate of RE decreased from 17 *per cent* in 2011-12 to 11 *per cent* in 2012-13 while the growth of GSDP remained almost same.

1.6.2.1 Plan Revenue Expenditure (PRE)

During 2012-13, the Plan Revenue Expenditure (PRE) was ₹ 7743 crore in comparison to the budget estimate of ₹ 11,254 crore. The PRE increased marginally to ₹ 7743 crore during the year from ₹ 7646 crore in 2011-12. The share of PRE in total RE decreased from 36 *per cent* in 2011-12 to 33 *per cent* in 2012-13. The stagnation in PRE was due to decrease in General Services (by ₹ 224 crore) and Economic Services (Transport by ₹ 168 crore) with increase in Social Services (by ₹ 511 crore). The CAGR of PRE during 2008-13 was 19.4 *per cent*.

1.6.2.2 Non-Plan Revenue Expenditure (NPRE)

During 2012-13, the NPRE was ₹ 15657 crore as against the budget estimate of ₹ 16,547 crore and ₹ 15,433 crore recommended by the TFC. The growth rate of NPRE increased from 12 *per cent* in 2011-12 to 17 *per cent* in 2012-13 over the previous year. The percentage of NPRE to the Total Revenue Expenditure varied between 64 and 75 during the period 2008-13. During 2012-13, the NPRE was 67 *per cent* of Revenue Expenditure. The CAGR of NPRE of the State during 2008-13 was 14.6 *per cent*.

During 2012-13, under Social Services the NPRE was mainly incurred on Education (₹ 2863.69 crore), Health and Family Welfare (₹ 550.74 crore), Social Welfare and Nutrition (₹ 302.54 crore) and Water Supply, Sanitation, Housing and Urban Development (₹ 282.19 crore). Under Economic Services, NPRE was incurred mainly on Energy (₹ 1102.15 crore), Rural Development (₹ 691.43 crore), Agriculture & Allied Activities (₹ 611.03 crore) and Transport (₹ 380.73 crore).

1.6.3 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.14** and **Chart 1.8** present the trend in the expenditure on these components during 2008-13.

Table 1.14: Components of Expenditure on Salaries & Wages, Subsidies, Pensions and Interest Payments

(₹ in crore)

Components of Committed Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13	
					Budget Estimates#	Actual
Salaries* & Wages , *of which*	3948 (30)	5342 (35)	5642(30)	6352(28)	8288	6446(26)
Non-Plan heads	*3801 (29)*	*5154 (34)*	*5434(29)*	*6150(27)*	*7773*	*6270(25)*
Plan heads	*147 (1)*	*188 (1)*	*208(1)*	*202(1)*	*515*	*176(1)*
Interest Payments	1887 (14)	2307(15)	2228(12)	2267(10)	2435	2391(10)
Expenditure on Pensions	988 (7)	1681(11)	2081(11)	2297(10)	2228	2931(12)
Subsidies	37 (0.3)	41(0.3)	80	286(2)	¥	270(1)
Total	**6860 (52)**	**9371 (62)**	**10031 (53)**	**11202(50)**	**12951**	**12054(49)**

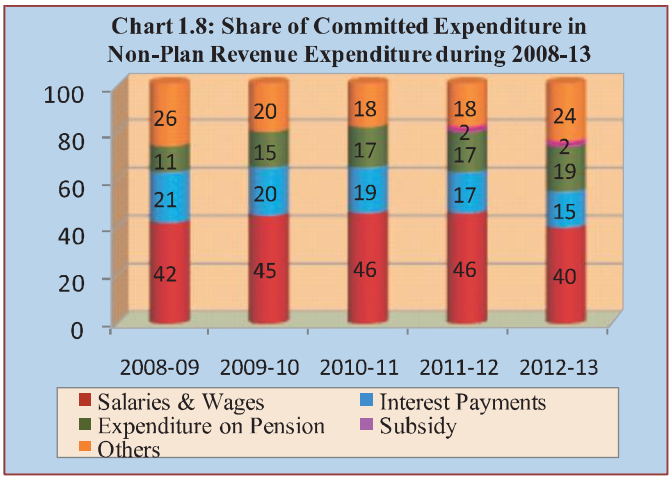
Source: Finance Accounts of Government of Jharkhand

Figures in parentheses indicate percentage of Revenue Receipts

** It also includes salaries paid out of Grants-in-aid.*

 # Budget Estimates are gross figures while the actual are net figures.

¥ Budget not available



Subsidy w.r.t NPRE in per cent comes to negligible during the years 2008-09 to 2010-11

Salaries & Wages (₹ 6446 crore), Interest Payments (₹ 2391 crore) and Pension (₹ 2931 crore) together accounted for 50 *per cent* of the Revenue Expenditure and consumed 48 *per cent* of the Revenue Receipts during 2012-13. The Total Non-plan expenditure on Salaries, Pension and Interest Payments together accounted for 74 *per cent* of NPRE during 2012-13.

- The expenditure on Salaries & Wages (S&W) constituted 28 *per cent* to 35 *per cent* of Revenue Expenditure (RE) during the years 2008-09 to 2012-13. The percentage of S&W to RE decreased from 30 *per cent* in 2011-12 to 28 *per cent* in 2012-13. Similarly, percentage of S&W to Revenue Receipts also decreased from 28 *per cent* in 2011-12 to 26

per cent 2012-13. The CAGR of Salaries & Wages during the period 2008-13 was 13 *per cent*.

- Expenditure on Salaries under the Non-Plan heads during 2012-13 (₹ 6270 crore) increased by ₹ 120 crore (two *per cent*) over the previous year. However, the expenditure exceeded the normative projection of TFC (₹ 5401 crore) by ₹ 869 crore.

Pension

- The expenditure on Pension increased from ₹ 988 crore in 2008-09 to ₹ 2931 crore in 2012-13, at a CAGR of 31.2 *per cent*. The growth rate during 2012-13 was also 28 *per cent* over the previous year. It exceeded the budget estimate (₹ 2228 crore) for 2012-13 by ₹ 703 crore (32 *per cent*).
- The State adopted Contributory Pension Scheme from 01 January 2004 to reduce future burden on pension and pensionary benefits. The State Government entered into an agreement with New Pension System Trust on 20 March 2009.

Interest Payments

- Interest Payments during 2012-13 were ₹ 2391 crore against the normative projection of ₹ 3017 crore by the TFC. The growth rate of Interest Payments was five *per cent* over the previous year. As a percentage of Revenue Receipts, the Interest Payments were 10 *per cent* each during 2011-12 and 2012-13. The CAGR of Interest paid by the State during 2008-13 was 6.1 *per cent*.
- Major components of Interest Payments during 2011-12 and 2012-13 are given in **Table 1.15** below:

Table 1.15: Major components of Interest Payments

(*₹ in crore*)

Interest paid for	2011-12	Average interest rate	2012-13	Average interest rate
Internal debt	1941.20	8.94	2018.33	8.50
Loans and Advances from GOI	165.81	7.23	185.95	8.18
Small Savings Provident fund	157.76	10.58	186.23	12.09
Total	**2264.77**	**8.88**	**2390.51**	**8.67**

Subsidy

- During 2012-13, Government of Jharkhand paid ₹ 270 crore[3] as subsidy mainly under the head 2401-Crop Husbandry (₹ 178.24 crore), 2404-Dairy Development (₹ 20.44 crore) and 2852-Industries (₹ 56.37 crore) which was specifically booked under the sub-head meant for subsidy. The amount of subsidy during 2012-13 was ₹ 270 crore against subsidy ₹ 286 crore during 2011-12.
- As per the Appendix III of the Finance Accounts for the year 2012-13, no subsidy was given for food, power and irrigation purposes.
- Subsidies are dispensed not only explicitly but also implicitly by providing subsidized public service to the people. During scrutiny of accounts for

[3]Appendix III of Finance Accounts

2012-13 we observed that ₹ 8.00 crore (Grant no 58) was provided for distribution of bicycles to the students of which ₹ 3.17 crore was utilized. Further, ₹ 1000 crore was provided as grants-in-aid to JSEB to fulfill its resource gap.

1.6.4 Major programmes

Under Social Sector and Economic Sector many flagship programmes were implemented in the State for which funds were provided in the budget under State Plan (SP) and Central Plan (CP). During 2012-13, ₹ 17,089 crore was budgeted under the State plan of which ₹ 11,279 crore was utilized, while under the Central Plan, ₹ 1158.92 crore was utilized against ₹ 2516.35 crore budgeted during the year.

The budget provisions and actual expenditure incurred on some major programmes during 2012-13, under SP and CP are shown in **Table 1.16**:

Table 1.16: Expenditure on major programmes

(*₹ in crore*)

Sl. No.	Name of programmes	Budget Provision	Expenditure
State Plan			
1	Major Roads	1117.23	1006.26
2	Rural Roads under Minimum Need Programme	382.49	356.49
3	Mukhyamantri Kanyadan Sahayata Yojna	488.51	458.21
4	Subernarekha Project	348.82	319.13
Central Plan			
1	National Programme of Nutritional Support to Primary Education	914.61	593.83
2	Integrated Child Development Programme	323.94	300.52
3	National Rural Health Mission	183.85	184.71

Expenditure on National Programme of Nutritional Support to Primary Education (₹ 593.83 crore) was very low in comparison to Budget estimate of ₹ 914.61 crore due less expenditure in Mid Day Meal.

Subernarekha Multipurpose Project: The project was started in 1973 and was scheduled to be completed by 1987-88. The project was estimated to cost ₹ 90 crore originally, which after the fifth revision of cost was scheduled to be completed in 2009-10 at a cost of ₹ 4540 crore. The project was, however, included under Accelerated Irrigation Benefit Programme (AIBP) and its completion date was rescheduled as 2013-14 with an estimated cost of ₹6613.74 crore. The project was started with the aim to irrigate of 236846 hectares of land in the State in addition to supplying 825 million cubic meter (MCM) water for industrial and domestic purposes in order to benefit the predominantly tribal population of the region.

As per Finance Account for the year 2012-13 the project was funded through State Plan, Assistance from the World Bank, National Bank for Agriculture and Rural Development and Additional Central Assistance under AIBP and the total expenditure on the Project was ₹ 1278 crore as on 31 March 2013.

Even after lapse of 25 years and after spending of ₹ 1278 crore the project remained incomplete as of 31 March 2013.

1.6.5 Financial assistance given by the State Government to Local Bodies and other institutions

The quantum of assistance given as grants and loans to Local Bodies and other institutions during 2012-13 as compared to the last three years is presented in **Table 1.17.**

Table 1.17: Financial assistance to Local Bodies and other Institutions

(₹ in crore)

Financial Assistance to Institutions	2009-10	2010-11	2011-12	2012-13
Panchayati Raj Institutions (PRIs)	-	875.69	581.06	485.85
Urban Local Bodies (ULBs)	485.14	246.15	25.34	182.43
Public Sector Undertakings	602.64	491.55	777.00	Nil
Autonomous Bodies	678.31	607.55	677.85	208.26
Non-Government Organisation	17.87	192.43	209.68	Nil
Others	548.98	708.34	2259.30	550.71[4]
Total	**2332.94**	**3121.71**	**4530.23**	**1427.25**
As percentage of Revenue Expenditure	**15.42**	**17.31**	**21.58**	**6.09**

Source: Statement 8 of Finance Accounts

Financial assistance given to Local Bodies decreased steadily from ₹ 2332.94 crore in 2009-10 to ₹ 1427.25 crore in 2012-13. The Thirteenth Finance Commission recommended ₹ 1516.60 crore and ₹ 425.80 crore respectively for PRIs and ULBs. The amounts of assistance to PRIs and ULBs shown in the above table do not include amounts provided (₹ 727 crore) to Panchayati Raj Institution and Urban Local Bodies under the minor heads 191, 192, 193, 196, 197 and 198 under respective departmental expenditure heads of accounts. The growth rate of the assistance fluctuated between (-) 68 *per cent* and 34 *per cent* during 2009-13.

1.6.6 Functioning of Urban Local Bodies and Panchayati Raj Institutions

Urban Local Bodies (ULBs)

The 74th Constitutional Amendment Act envisaged (1992) establishment of Local Self-Government for urban areas wherein the Municipalities were provided with Constitutional status for governance. Accordingly, 18 functions such as town planning, land use regulation, water supply, etc. were to be assigned to the ULBs. Further, as per the recommendations of the Eleventh Finance Commission (EFC), the funds for the ULBs are to be allocated under the specific Minor Heads 191-Assistance to Municipal Corporation, 192-Assistance to Municipalities/Councils and 193-Assistance to Nagar Panchayats. The State Government framed the 'Jharkhand Municipal Act, 2011 duly incorporating the 18 functions in the Act as indicated in ***Appendix 1.6*** only in February 2012. There are 39 ULBs (Nagar Nigam-3, Nagar Parishad-14, Nagar Panchayat-19, Nagar Palika-1 and Notified Area Committee-2) in the State.

[4] Decrease due to less financial assistance to-(i) Districts Commissioners for Integrated Action Plan (₹ 510.00 crore), (ii) Co-operative Societies (₹ 147.07 crore), Deputy Secretary, Transport (₹ 486.70 crore) and Pr. Secretary, Human Resources Development (₹ 255.81 crore).

It would be seen from **Table 1.18** that the State Government paid total grants of ₹ 1674 crore to the ULBs during the period 2008-13. However, there was significant decline in release of grants during the period 2009-13. During 2011-12, the assistance decreased to ₹ 25 crore only mainly due to non-release of assistance for sewerage, drainage system, water supply, preparation of detailed project reports, civil facilities, construction of buildings, land acquisition etc. Details of funds provided to ULBs are as follows:

Table 1.18: Funds made available to Urban Local Bodies

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Revenue Receipt (RR)of the State	13213	15118	18781	22420	24770	94302
Revenue Expenditure (RE) of the State	12877	15128	17945	20992	23400	90342
Financial Assistance given to ULBs	736	485	246	25	182	1674
Financial Assistance as percentage to RR	5.58	3.21	1.31	0.11	0.73	1.78
Financial Assistance as percentage to RE	5.72	3.21	1.37	0.12	0.78	1.85
Own collection[5]	-	-	3.23	18.84	Nil	22.07

The Second State Finance Commission constituted in January 2009 has not made any recommendation in respect of devolution of funds to ULBs as of September 2013. Further, information regarding transfer of functions and funds to the ULBs, was called for (September 2012 and November 2013) from the Urban Development Department. Their reply has not been received (November 2013).

In Jharkhand, the State Government has entrusted Technical Guidance and Supervision (TGS) over audit of Local Bodies (Urban Local Bodies and Panchayati Raj Institution) to Comptroller & Auditor General of India (C&AG) in October 2011. Accordingly, Bihar and Orissa Local Fund Audit Act, 1925 was amended in March 2012 comprising the provision for audit by Director of Local Fund Audit (DLFA) at the State level to whom the C&AG had to provide TGS. State Government created 22 posts (March 2013) to make DLFA functional but DLFA has not been operationalised till date and the Examiner, Local Accounts is conducting audit of local bodies on test check basis as per TGS arrangement since April 2012.

Panchayati Raj Institutions

The State Government enacted the Jharkhand Panchayati Raj Act in 2001 to establish a three-tier PRI system i.e. Zila Panchayat (ZP) at district level, Panchayat Samiti at block level and Gram Panchayat at the village level. The rules were framed to enable PRIs to function as Institution of Local Self-Government. As recommended by the Eleventh Finance Commission the classification of the funds transferred to PRIs is made under the minor heads 196- Assistance to Zila Parishad, 197- Assistance to Block Panchayat and 198-Assistance to Gram Panchayat.

[5] Information regarding funds collected by the ULBs from own sources has not been furnished by the Urban Development Department. However, information obtained during audit of various ULBs (2010-11 : Nagar Panchayats- Basukinath, Chas, Gumla, Khunti, Simdega and Municipal Council Lohardaga and 2011-12 Nagar Panchayats- Bisrampur, Chakulia, Koderma, Rajmahal, Municipality : Jugsalai and Ranchi Municipal Corporation) revealed that ₹ 22.07 crore was collected during this period.

According to the Jharkhand Panchayati Raj Act, 2001, funds released by the Central and State Governments were to be utilised by the PRIs for execution of various development programmes relating to provision of civic amenities to rural people. At present, there are 4706 PRIs[6] in the State. As shown in **Table 1.19**, Government paid no grants to the PRIs up to 2009-10. During the period 2010-13, a total amount of ₹ 1943 crore was paid to the PRIs, as shown below:

Table 1.19: Funds available to Panchayati Raj Institutions

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Revenue Receipt (RR)of the State	13213	15118	18781	22420	24770	94302
Revenue Expenditure (RE) of the State	12877	15128	17945	20992	23400	90342
Financial Assistance to PRIs*	-	-	876	581	486	1943
Financial Assistance as percentage to RR	-	-	4.66	2.59	1.96	2.06
Financial Assistance as percentage to RE	-	-	4.88	2.77	2.08	2.15
Own collection**	-	-	-	-	-	-

* *Election of PRIs was held in December 2010.*

** *Recommendation has not been made by the State Finance Commission.*

The Second State Finance Commission constituted in January 2009 has not made any recommendation in respect of devolution of funds to PRIs as of September 2013. The State Government has not identified the sources of revenues of PRIs (other than the grants/programme funds), as the rates of taxes, tolls and fees etc. to be imposed by the PRIs have not been decided and notified (September 2013).

As per the recommendations of the Eleventh Finance Commission, the Government notified (March 2011) the 'Jharkhand Panchayati Raj (Budget & Accounts) Regulation 2012' and the accounting in PRIs is done accordingly. However, audit of the PRIs are continued to be done by the ELA, as appointment of the DLFA has not been finalised by the Government so far (November 2013).

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 the expenditure (*i.e.* adequate provisions for providing public services), efficiency of expenditure and its effectiveness (assessment of outlay-outcome relationship for select services).

Growth rate of total expenditure of the State during 2012-13 was 15.8 *per cent* against 16.5 *per cent* during 2011-12 over the previous year.

In RE, the development expenditure (expenditure on social and economic services) constituted 63 *per cent*, while non development expenditure constituted 37 *per cent* during 2012-13. The growth rate of development expenditure during 2012-13 was 12 *per cent* over previous year, while non-development expenditure grew at 11 *per cent* over previous year.

[6] 24 Zila Parishad, 259 Panchayat Samities and 4423 Gram Panchayats

1.7.1 Adequacy of Public Expenditure

The responsibilities relating to the social and economic sector assigned to the State Governments are largely State subjects. To enhance human development levels it requires the State to step up its expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average.

Table 1.20 analyses the fiscal priority of the State Government with regard to Development Expenditure, Social Sector Expenditure and Capital Expenditure during 2012-13, taking 2009-10 as the base year.

Table 1.20: Fiscal Priority of the State in 2009-10 and 2012-13

(₹ in crore)

Fiscal Priority by the State*	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
Other General Category States Average (Ratio) 2009-10	17.06	66.05	35.73	14.96	16.19	4.24
Jharkhand State's Average (Ratio) 2009-10	18.03	62.22	35.75	14.89	18.01	3.77
General Category States Average (Ratio) 2012-13	15.93	65.79	32.77	13.23	17.23	4.47
Jharkhand State's Average (Ratio) 2012-13	17.99	68.49	33.15	14.95	15.95	3.39

*As *per cent* to GSDP

AE: Aggregate Expenditure (Total Expenditure), DE: Development Expenditure, SSE: Social Sector Expenditure, CE: Capital Expenditure

Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

Source: GSDP figures as furnished by the State's Directorate of Economics and Statistics

The State of Jharkhand spent higher proportion of its GSDP as Aggregate Expenditure in 2009-10 and 2012-13 in comparison to General Category States.

Development Expenditure as well as Capital Expenditure as a proportion of Aggregate Expenditure in Jharkhand was less than the General Category States' average during 2009-10 while during 2012-13 Jharkhand spent more on this account as compared to General Category States.

The State has given less priority to both education and health sector as compared to the General Category States in the year 2012-13. It has also slipped up in these areas compared to it's own expenditure in ratio to AE in 2009-10.

1.7.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public goods[7]. Apart from improving

[7] *Core public goods* are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidised rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidised 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.

the allocation towards development expenditure[8], the efficiency of expenditure use is also reflected by the ratio of Capital Expenditure to Total Expenditure (and/or GSDP) and the proportion of Revenue Expenditure being spent on operation and maintenance of the existing Social and Economic Services. The higher the ratio of these components to Total Expenditure (and/or GSDP) the better would be the quality of expenditure.

Table 1.21 presents the trends in Development Expenditure relative to the Aggregate Expenditure of the State during 2012-13 *vis-à-vis* the budgeted amounts and the expenditure during the previous years.

Table 1.21: Development Expenditure

(₹ *in crore*)

Components of Development Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13	
					BE*	Actuals
Development Expenditure (a to c)						
Development Revenue Expenditure	7918 (48)	8523(47)	10954(52)	13146(54)	19244	14704(52)
Development Capital Expenditure	2875(18)	2591(14)	2544(12)	3003(12)	6548	4042(14)
Development Loans and Advances	411 (3)	308(2)	296(1)	199(1)	704	582(2)
Total	**11204**	**11422**	**13794**	**16348**	**26496**	**19328**
Figures in parentheses indicate percentage to aggregate expenditure (RE + CE + L&A)						
* Budget estimates are gross figures while actuals are net figures.						

Source: Finance Accounts of Government of Jharkhand and budget publication

- The Development Expenditure of the State comprised Revenue Expenditure and Capital Expenditure including Loans and Advances on Social Services and Economic Services. During 2012-13, the growth of Development Expenditure was 18.23 *per cent* over the previous year.
- As seen from the table above the total Development Expenditure was much below the budget estimate during 2012-13. The expenditure on General Services (Non-Development) was ₹ 8892 crore against the budget of ₹ 8890 crore for the year.
- During 2008-13, the share of Development Revenue Expenditure in Total Expenditure ranged between 47 *per cent* and 54 *per cent*. The CAGR of Development Revenue Expenditure was 16.7 *per cent* during 2008-13.
- The share of Development Capital Expenditure (including Loans and Advances) in Total Expenditure decreased from 21 *per cent* in 2008-09 to 13 *per cent* each in 2010-11and 2011-12. However, it increased to 16 *per cent* in 2012-13. The CAGR of Development Capital Expenditure during 2008-13 was 8.4 *per cent*.
- Expenditure on Social Services (₹ 9357 crore) and on Economic Services (₹ 9971 crore) shared 48 *per cent* and 52 *per cent* respectively of the total Development Expenditure during 2012-13 (₹ 19,328 crore).

[8] *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 categorised into social services, economic services and general services.The social and economic services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure in our figures.*

Expenditure use in selected Social and Economic Services

Table 1.22 provides the details of Capital Expenditure and the components of Revenue Expenditure incurred on the maintenance of selected Social and Economic services.

Table 1.22: Efficiency of Expenditure use in Selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2011-12			2012-13		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M*		S&W	O &M
Social Services (SS)						
General Education	0.45	54.43	0.00	0.86	47.35	0.00
Health and Family Welfare	16.57	54.96	0.10	15.38	57.50	0.02
WS, Sanitation, & HUD	48.12	25.80	2.43	43.14	19.16	3.66
Total (SS)	**10.75**	**40.91**	**0.29**	**11.03**	**34.49**	**0.35**
Economic Services (ES)						
Agriculture & Allied Activities	7.10	30.99	0.38	1.59	32.92	0.03
Irrigation and Flood Control	58.59	98.23	0.00	67.78	97.76	0.00
Power & Energy	16.10	0.00	0.00	0.00	0.00	0.00
Transport	49.08	10.72	11.41	67.43	12.83	35.41
Total (ES)	**28.40**	**17.05**	**2.92**	**32.02**	**16.34**	**3.24**
Total (SS+ES)	**19.59**	**30.28**	**3.21**	**23.93**	**26.60**	**1.60**

TE: Total Expenditure of that sector; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance, as per Finance Accounts it represents actual expenditure booked under detailed head -05- Maintenance and Repairs.

Source: Finance Accounts of Government of Jharkhand

- Development Capital Expenditure as a percentage of total Development Expenditure increased significantly from 19.59 *per cent* in 2011-12 to 23.93 *per cent* in 2012-13.
- Salary component in Social Services and Economic Services decreased from 40.91 *per cent* and 17.05 *per cent* in 2011-12 to 34.49 per cent and 16.34 *per cent* during 2012-13 respectively.
- During 2012-13, the State Government spent ₹ 408.83 crore under the detailed head- "05- Maintenance and Repairs to maintain public assets".
- The share of operation and maintenance in Revenue Expenditure on Social Services increased from 0.29 *per cent* in 2011-12 to 0.35 *per cent* in 2012-13 due to more expenditure on Water Supply, Sanitation, Housing and Urban Development.
- The share of operation and maintenance in Revenue Expenditure on Economic Services increased from 2.92 *per cent* in 2011-12 to 3.24 *per cent* in 2012-13 due to increase in Expenditure on Road Construction, Rural development and Water Resources.

1.8 Financial analysis of Government expenditure and investments

In the post-FRBM framework, the State is expected to keep its Fiscal Deficit (and borrowings) not only at low level but also to meet its Capital Expenditure/investment (including Loans and Advances) requirements. In

addition, in a transition to complete dependence on market-based resources, the State Government needs to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other Capital Expenditure undertaken by the Government during the current year *vis-à-vis* the previous years.

1.8.1 Financial results of completed Irrigation projects

The financial results of irrigation projects of the State are presented in Appendix IX (i) of the Finance Accounts, based on information furnished by the State Government. As per the Appendix-IX of the Finance Accounts for the year 2012-13, there is no commercial irrigation project in the State.

1.8.2 Incomplete Projects

Funds blocked up on incomplete projects, to be completed on or before March 2013, impinge negatively on expenditure. As of March 2013, there were 189 incomplete capital works each costing more than ₹ 10 lakh. A total of ₹ 1972.03 crore was blocked in these projects. Department-wise information pertaining to incomplete projects, as on 31March 2013, is given in **Table 1.23.**

Table 1.23: Department-wise profile of Incomplete Projects

(*₹ in crore*)

Department	No. of Incomplete Projects*	Initial Estimated Cost	Expenditure during current year	Cumulative actual expenditure as on 31.3.2013
Road Construction	134	137.68	22.69	628.05
Drinking Water and Sanitation	11	611.48	24.57	290.35
Water Resources	14	1028.82	267.77	884.74
Building Construction	30	131.52	24.55	168.89
Total	**189**	**1909.50**	**339.58**	**1972.03**
*Projects costing more than ₹ 10 lakh				

Source: Appendix X of Finance Accounts

At the end of 2012-13, the number of incomplete works/projects was 189 as compared to 182 as of March 2012.

The target dates fixed for completion of the incomplete projects given in **Table 1.23** were from June 2000 to March 2013. The revised dates for completion of the projects had not been provided by the Government for most of projects. The estimated cost (original) of the above incomplete projects was ₹ 1909.50 crore against which the progressive expenditure at the end of March 2013 was ₹ 1972.03 crore. Total expenditure incurred on those project during 2012-13 was ₹ 339.58 crore.

1.8.3 Investment and returns

As of 31 March 2013, the Government had invested ₹ 187.82 crore in one Regional Rural Bank (₹ 45.73 crore), 11 Government Companies[9] (₹ 31.55 crore) and 17 Co-operatives, Corporations, and Societies (₹ 110.54 crore) since inception of the State in November 2000 **(Table 1.24)**. The return was

[9] The details of investments made, accumulated profit/loss etc. in respect of Government Companies are featured in the Audit Report (Public Sector undertakings) for the year 2012-13.

₹ 15 crore (7.99 *per cent*) in 2012-13 against ₹ 1.17 crore (0.64 *per cent*) in 2011-12. However, Government paid interest at an average rate of 7.42 *per cent* to 8.76 *per cent* on its borrowings during the years 2008-09 to 2012-13.

Table 1.24: Returns 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)*	112.47	128.73	135.18	182.57	187.82
Returns *(₹ in crore)*	Nil	Nil	0.40	1.17	15.00
Returns *(per cent)*	Nil	Nil	0.3	0.64	7.99
Average rate of interest on Govt. borrowing *(per cent)*	7.42	8.03	7.98	7.64	8.76
Difference between interest rate and return (*per cent*)	7.42	8.03	7.68	7.00	0.77

Source: Finance Accounts of Government of Jharkhand-Statement 14

Investment of ₹ 5.25 crore (three *per cent*) only was made during 2012-13 in Government Companies (₹ 2.50 crore) and Integrated Co-operative Development Project (₹ 2.75 crore). However, return on investment was 7.99 *per cent* during 2012-13.

Further, investments in these institutions as well as Statutory Corporations and Joint Stock Companies up to 14 November 2000 by the composite Bihar State had not been apportioned between the States of Bihar and Jharkhand.

1.8.4 Investment in PPP projects

Public Private Partnerships (PPP) allow the Government to tap into the resources and expertise of the private sector for public benefit. It is a partnership between a public sector entity (sponsoring authority) and a private sector entity (a legal entity in which 51 *per cent* or more of equity is with the private partner (s)) for creation and/or management of infrastructure for public purpose for a specified period of time on commercial terms and in which the private partner has been selected through a transparent and open competitive bidding process.

Information gathered during audit of five PPP projects implemented by Road Construction Department are given in **Table 1.25**:

Table 1.25: Public Private Partnership Projects

Project	Agreement date	Commencement date	Schedule completion date	Commercial operation date	Annuity start date	Total project cost (₹in crore)	Annuity to be paid annually* (₹in crore)
Ranchi Ring Road (Sec. III, IV, V & VI)	25.09.09	25.03.10	21.09.12	21.09.12	22.03.13	620.10	117.82
Ranchi Patratu Dam Road	14.10.09	13.04.10	12.10.12	12.10.12	12.04.13	263.86	50.13
Patratu Dam Ramgarh Road	14.10.09	13.04.10	31.12.13	Not Started	30.06.14	326.84	62.10
Chaibasa Kandra Chowk Road	28.05.11	27.11.11	26.05.14	Not Started	26.11.14	432.99	82.27
Adityapur Kandra Road	06.08.11	02.02.12	31.01.13	31.01.13	31.07.13	241.15	45.82
Total						**1884.94**	**358.14**

**Annuity to be paid for 15 years after completion of the project.*

As the Commercial Operation Date (COD) was considered by Road Construction Department as provisional completion of project according to contractual provision, Ranchi Ring Road (RRR) Project was treated as provisionally completed to which annuity of ₹ 55.65 crore was paid in 2012-13.

1.8.5 Loans and Advances given by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the Government has also been providing Loans and Advances to many of these institutions/organisations. **Table 1.26** presents the outstanding Loans and Advances as on 31 March 2013 and interest receipts *vis-à-vis* interest payments during the last five years.

Table 1.26: Loans and advances given by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2008-09	2009-10	2010-11	2011-12	2012-13
Opening Balance of Loans *(₹ in crore)*	6016	6415	6713	6997	7190
Amount advanced during the year *(₹ in crore)*	418	320	308	217	601
Amount recovered during the year *(₹ in crore)*	19	22	24	24	43
Recovery as percentage of outstanding Loans and Advances	0.3	0.3	0.4	0.3	0.6
Closing Balance	**6415**	**6713**	**6997**	**7190**	**7748**
Net addition (₹ in crore)	399	298	284	193	558
Total Interest Receipts *(₹ in crore)*	0.48	7.64	7.26	2.12	0.95
Interest Receipts as a percentage of outstanding Loans and Advances	*	0.12	0.12	*	0.01

Source: Finance Accounts of Government of Jharkhand
**Negligible*

- The quantum of loans advanced to Co-operative Societies, Companies etc. by the State gradually decreased from ₹ 418 crore in 2008-09 to ₹ 217 crore in 2011-12 which again increased to ₹ 601 crore in 2012-13. During 2012-13, the increase in Loans and Advances was mainly under power projects (₹ 376.75 crore).
- During 2012-13 loan of ₹ 541.70 crore was given to Jharkhand State Electricity Board of which ₹ 58.89 crore was given for transmission, ₹ 17.27 crore for Accelerated Power Development Programme and ₹ 120.00 crore for Annual Development Programme.
- The outstanding Loans and Advances increased during 2012-13 by eight *per cent* over the previous year. Major outstanding amounts at the end of March 2013 were against the Jharkhand State Electricity Board (₹ 7125 crore) and Urban Local Bodies (₹ 545 crore).
- Recoveries of Loans and Advances amounting to ₹ 1112.44 crore (Principal ₹ 341.28 crore and Interest ₹ 771.16 crore) was overdue as on 31 March 2013. During 2012-13, amount of Loans and Advances overdue was ₹ 77.94 crore of which ₹ 32.05 crore was in shape of Principal amount and ₹ 45.89 crore was in shape of Interest.

1.8.6 Cash Balances and Investment of Cash Balances

Details of cash balances and investments made by the State Government during the year are shown in **Table 1.27.**

Table-1.27: Cash balances and Investment of Cash balances

(₹ in crore)

Particulars	As on 1st April 2012	As on 31st March 2013
Cash Balances	116.85	704.75*
Investments from Cash Balances (a to c)	4.41	746.57
a. GOI Treasury Bills	Nil	742.16
b. GOI Securities	Nil	nil
c. Other Investments	4.41	4.41
Interest realized on investment	42.02	71.27
Deposit with Reserve Bank	93.85	(-)56.50
Departmental Cash Balance	18.59	14.68

**Cash balance was less than investment due to negative balance with RBI on 31 March 2013*
Source: Finance Accounts of Government of Jharkhand

The cash balance of the State at the end of 31 March 2013 was ₹ 704.75 crore against the cash balance of ₹ 116.85 crore in the previous year.

The State had a cash balance investment of ₹ 746.57 crore at the end of March 2013 against cash balance investment of ₹ 4.41 crore at the end of March 2012. Out of total cash balance investment of ₹ 746.57 crore during 2012-13 ₹ 742.16 crore was invested in GoI Treasury Bills.

The cash balance with the Reserve Bank of India (RBI) as on 31 March 2013 worked out by the Accountant General (A&E), Jharkhand, was ₹ 56.50 crore (credit). However, the cash balance reported by the RBI as on 31 March 2013 was ₹ 57.06 crore (debit). Difference of ₹ 0.56 crore as on 31 March 2013 was under reconciliation.

During 2012-13 the State Government had to take special ways and means advance for two days and normal ways and means advance for 11 days to maintain the minimum balance in RBI.

1.9 Assets and Liabilities

1.9.1 Growth and Composition of Assets and Liabilities

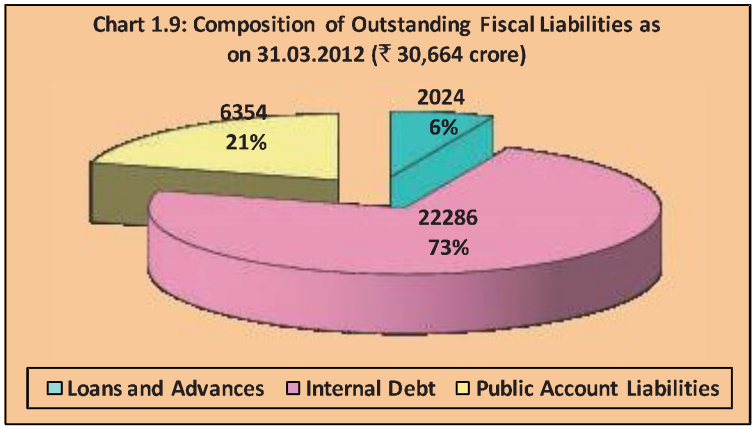
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. ***Appendix 1.4 Part B*** gives an abstract of such liabilities and assets as on 31 March 2013, compared with the corresponding position on 31 March 2012. While the liabilities consist mainly of internal borrowings, Loans and Advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly of Capital Outlay, Loans and Advances given by the State Government and the cash balances.

The Jharkhand FRBM Act, 2007 defines the total liabilities of the State as the liabilities under the Consolidated Fund of the State and the Public Account of

the State which includes Loans and Advances from the Central Government, open market borrowings, loans from financial institutions, Public Account balances of Small Savings, Reserve Funds, Deposits, etc.

1.9.2 Fiscal Liabilities

The trends of outstanding fiscal liabilities of the State are presented in ***Appendix 1.3.*** However, the composition of fiscal liabilities during the years 2011-12 and 2012-13 is presented in **Chart 1.9** and **Chart 1.10** respectively**.**



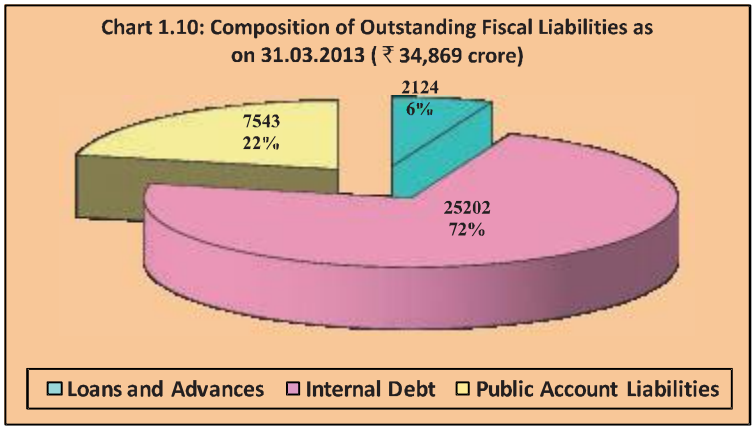


Table 1.28: Trends in Fiscal Liabilities: basic parameters

(₹ in crore)

Components	2008-09	2009-10	2010-11	2011-12	2012-13
Internal Debt	17,568	19,880	21,131	22,286	25,202
Loans and Advances from GOI	2404	2272	2167	2024	2124
Public Account Liabilities	4112	5013	5357	6354	7543
Total Fiscal Liabilities	**24,084**	**27,165**	**28,655**	**30,664**	**34,869**
Growth of Total Liabilities	11.4	12.8	5.5	7.0	13.7
Fiscal Liability to GSDP	27.4	27.0	22.8	21.8	22.2

- As depicted in **Table 1.28** the overall Fiscal Liabilities (FL) of the State increased by 45 *per cent* from ₹ 24,084 crore in 2008-09 to ₹ 34,869 crore in 2012-13. The annual growth rate of Fiscal Liabilities was 14 *per cent* during 2012-13 against seven *per cent* in 2011-12. However, the CAGR of FL was 9.7 *per cent* during the period 2008-13.
- Fiscal Liabilities of the State comprises of ₹ 319.67 crore in shape of

Reserve Fund (₹ 316.20 crore as State Disaster Response Fund, and ₹ 3.47 crore as General Reserve Funds of Government Commercial Departments/Undertakings).

- The ratio of Fiscal Liabilities to GSDP decreased gradually from 27.4 *per cent* in 2008-09 to 21.8 *per cent* in 2011-12. The ratio again increased to 22.2 *per cent* in 2012-13. However, percentage of FL/GSDP was less than the TFC recommendation of 27.8 *per cent* for the year.
- The Twelfth Finance Commission had recommended setting up of a Sinking Fund, to be maintained outside the Consolidated Fund of the State and the Public Account, for amortisation of all loans including loans from banks, liabilities on account of NSSF etc. However, no such Fund had been set up as of September 2013.
- Apportionment of Fiscal Liabilities of undivided Bihar between the successor States of Bihar and Jharkhand had not been done so far (September 2013).

1.9.3 Transaction under Reserve Fund

Thirteenth Finance Commission recommended to constitute a State Disaster Response Fund (SDRF) under section 46 (I) and section 48 (I) (a) of the Disaster Management Act, 2005 till the end of the year 2014-15. According to the scheme, State Disaster Response Fund has been constituted (2010-11) by the State Government and balance of Calamity Fund transferred to the SDRF (2010-11) and Calamity Relief Fund ceased to exist.

During 2012-13, the opening balance in the SDRF was ₹ 440 crore as on 1st April 2012. During 2012-13, receipt and disbursement was ₹ 280 crore and ₹ 403 crore respectively leading to a closing balance of ₹ 317 crore at the end of March 2013.

1.9.4 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by borrowers for whom the guarantees are extended.

The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. However, no such law was passed by the State Legislature of Jharkhand and no limit was fixed for guarantees given on the security of the Consolidated Fund of the State.

As per Statement 9 of the Finance Accounts there was an outstanding guarantee of ₹ 157.15 crore against JSEB of which guarantee of ₹ 77.78 crore was given during 2012-13.

1.10 Debt Management

1.10.1 Debt profile

Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability[10] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation[11]; sufficiency of non-debt receipts[12]; net availability of borrowed funds[13]; burden of interest payments (measured by interest payments to Revenue Receipts ratio) and the maturity profile of State Government securities.

1.10.2 Debt Sustainability

Table 1.29 analyses the debt sustainability of the State according to these indicators for a period of five years beginning from 2008-09.

Table 1.29: 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 + PD)*	(-)2018	(+)647	(+)4753	(+)1509	(+)285
Sufficiency of Non-debt Receipts (Resource Gap)*	(-)1171	103	899	188	(-)39
Net Availability of Borrowed Funds	583	773	(-)737	(-)238	1814
Debt GSDP ratio	27.4	27.0	22.8	21.8	22.2
Burden of Interest Payments (IP/RR Ratio)	14	15	12	10	10
Maturity Profile of State Debt (In Years)					
0 – 1	775(4)	1183(5)	1868(8)	1449(6)	1381
1 – 3	2508(13)	2885(13)	2977(13)	3080(13)	3031
3 – 5	2829(14)	3263(15)	2872(12)	2623(11)	3358
5 – 7	2635(13)	2569(12)	3284(14)	4302(17)	5009
7 and above	11225(56)	12252(55)	12298(53)	12856(53)	14547
Total	**19972**	**22152**	**23299**	**24310**	**27326**

Percentage to total are shown in brackets.
**Formula in Appendix 1.2 Part A*

- As may be seen from the above table, the quantum spread together with the primary deficit increased from (-) ₹ 2018 crore in 2008-09 to ₹ 647 crore in 2009-10 due to increase in growth rate of GSDP to 14.6 *per cent* against 4.6 *per cent* in 2008-09. Further, Growth rate of GSDP improved to 25 *per cent* during 2010-11 and also primary deficit turned into primary surplus of ₹ 116 crore leading to Debt stabilization position (QS + PD) to ₹ 4753 crore.

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

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

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

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

However, QS together with PD decreased to ₹ 1509 crore and ₹ 285 crore respectively during 2011-12 and 2012-13.

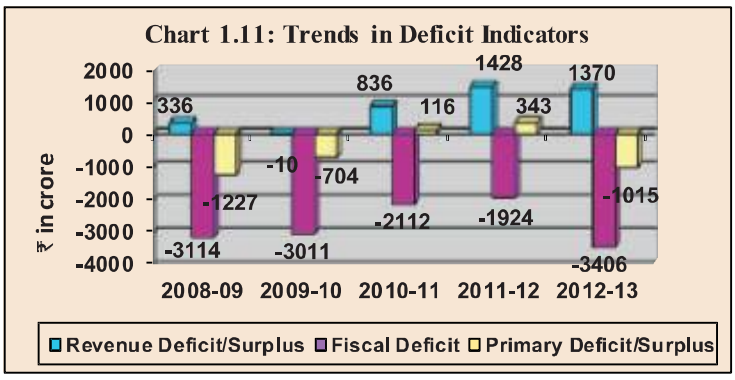
- During 2012-13, the Debt-GSDP ratio at 22.2 *per cent* was less than the target fixed in FRBM Act (25 *per cent*) and normative projection made by TFC (27.8 *per cent*). The ratio marginally increased to 22.2 *per cent* during 2012-13 in comparison to that during 2011-12 (21.8 *per cent*).
- The resource gap of (-) ₹ 1171 crore in 2008-09 increased to ₹ 899 crore during 2010-11 which was indicative of improvement in fiscal position of the State. However, it sharply decreased to ₹ 188 crore in 2011-12 and (-) ₹ 39 crore in 2012-13.
- Net availability of borrowed funds increased from ₹ 583 crore in 2008-09 to ₹ 773 crore in 2009-10 which decreased to (-) ₹ 737 crore in 2010-11 and (-) ₹ 238 crore in 2011-12. However, it increased to ₹ 1814 crore in 2012-13.
- The ratio of Interest Payments to Revenue Receipts showed significant improvement as it declined steadily from 15 *per cent* in 2009-10 to 10 *per cent* in 2012-13.
- The maturity profile of the State debt shows that the debt liability was increasing for every block period.

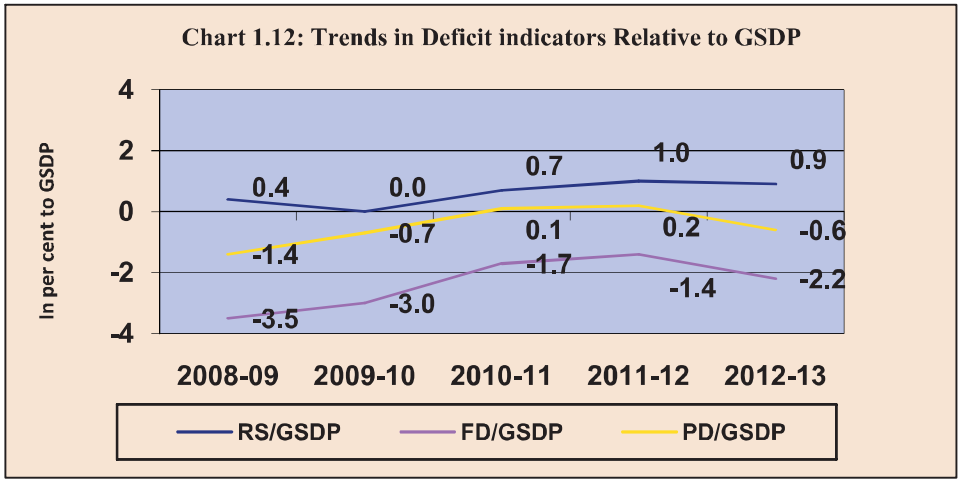
1.11 Fiscal Imbalances

Three key fiscal parameters-Revenue Deficit, Fiscal Deficit and Primary Deficit-indicate the extent of the overall fiscal imbalances in the finances of the State during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and resources raised are applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the manner of financing of these deficits and also the assessment of actual levels of Revenue Deficit and Fiscal Deficits *vis-à-vis* the targets set under the FRBM Act and Rules for the financial year 2012-13.

1.11.1 Trends in deficits

Chart 1.11 and **1.12** present the trends of deficit indicators over the period 2008-13.





- The State had a Revenue Surplus during the period 2008-13, except a Revenue Deficit of ₹ 10 crore only in 2009-10. However, revenue surplus slightly decreased to ₹ 1370 crore in 2012-13 from ₹ 1428 crore in 2011-12.

- The State had achieved the target of reducing the Revenue Deficit to 'zero' by the end of 2008-09 as targeted in FRBM Act of the State and the TFC. However, Revenue Surplus to GSDP ratio was 0.87 *per cent* during 2012-13 against the target of 3.32 *per cent* exhibited in the MTFP due to non achievement of estimated revenue receipts (₹ 32,426 crore).
- The Fiscal Deficit of the State consistently decreased from ₹ 3144 crore in 2008-09 to ₹1924 crore in 2011-12, then increased to ₹ 3406 crore in 2012-13 due to less revenue receipts.
- The percentage of Fiscal Deficit to GSDP showed improvement as it decreased consistently from 3.5 *per cent* at the end of March 2009 to 1.4 *per cent* at the end of March 2012 which slightly increased to 2.2 *per cent* at the end of March 2013. The percentage of Fiscal Deficit to GSDP was nearly at par with the estimate of 2.15 *per cent* exhibited in the MTFP for the year 2012-13.However, it was within the TFC recommendation of three *per cent*.
- Primary Deficit showed wide fluctuation during 2008-13 mainly because of fluctuation in Revenue Deficit/Surplus. The Primary Deficit of ₹ 1227 crore in 2008-09 decreased to ₹ 704 crore in 2009-10 and turned into a Primary Surplus of ₹ 116 crore in 2010-11 and ₹ 343 crore in 2011-12 which further, turned into Primary Deficit of ₹ 1015 crore in 2012-13.
- The Primary Deficit was 0.65 *per cent* of GSDP against the MTFP target of 0.50 *per cent* for 2012-13.

1.11.2 Composition of Fiscal Deficit and its financing pattern

The financing pattern of the Fiscal Deficit has undergone a compositional shift as reflected in **Table 1.30.**

Table 1.30: Components of Fiscal Deficit and its financing pattern

(₹ in crore)

	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13		
Decomposition of Fiscal Deficit		**3114**	**3011**	**2112**	**1924**	**3406**		
1	Revenue Deficit/Surplus	336	(-)10	836	1428	1370		
2	Net Capital expenditure	3051	2703	2664	3159	4218		
3	Net Loans and Advances	399	298	284	193	558		
Financing Pattern of Fiscal Deficit*						**Receipt**	**Disbursement**	**Net**
1	Market Borrowings	1238	1674	198	785	3600	455	3145
2	Loans from GOI	(-)136	(-)133	(-)104	(-)122	239	139	100
3	Special Securities issued to NSSF	54	670	957	(-)73	221	421	(-)200
4	Loans from Financial Institutions	418	(-)32	96	442	1139	1169	(-)30
5	Small Savings, PF, etc.	200	273	104	70	668	646	22
6	Reserve Fund	(-)48	313	(-)223	(-)105	280	403	(-)123
7	Deposits and Advances	799	273	464	1030	8706	7416	1290
8	Suspense and Miscellaneous	208	132	(-)27	74	200	169	31
9	Remittances	(-)10	(-)39	6	(-)17	4643	4784	(-)141
10	Inter State Settlement	(-)146	0	0	(-)76	nil	(-)100	(-)100
11	Cash balance increase (+)/ Decrease(-)	(-)537	120	(-)641	117	117	705	588
*All these figures are net of disbursements/outflows during the year except for 2012-13								

Source: Finance Accounts of Government of Jharkhand

During 2012-13, the Fiscal Deficit of ₹ 3406 crore was mainly met from Market Borrowings (₹ 3145 crore) and Deposits and Advances (₹ 1290 crore).

1.11.3 Quality of Deficit/Surplus

Ideally, the Revenue Receipts should cover the Revenue Expenditure (including interest payments) of the State. While Revenue Deficit is made up from the borrowings (Fiscal Deficit), the Revenue Surplus can be used for Capital Expenditure thereby reducing the borrowings. Further, if the Non-Debt receipts can meet the Primary Expenditure[14], there will be no Primary Deficit, to be financed by borrowings. Thus, a necessary condition for stability in finances of the State is that Non-Debt receipts should be adequate enough to cover the incremental primary expenditure and incremental interest payments. The bifurcation of the Primary Deficit indicates the extent to which the deficit has been on account of enhancement in Capital Expenditure which may be desirable for improving the productive capacity of the State's economy. Bifurcation of factors is given in **Table 1.31**.

Table 1.31: Primary Deficit/Surplus in the State- bifurcation of factors

(₹in crore)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue Deficit (-) / Surplus (+)	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2008-09	13232	10990	3051	418	14459	(+)2242	(-)1227
2009-10	15140	12821	2703	320	15844	(+)2319	(-)704
2010-11	18805	15717	2664	308	18689	(+)3088	(+)116
2011-12	22444	18725	3159	217	22101	(+)3719	(+)343
2012-13	24813	21009	4218	601	25828	(+)3804	(-)1015

Source: Finance Accounts of Government of Jharkhand

[14] Expenditure on Revenue, Capital and Loans and Advances, but not interest payments

- During 2008-09 to 2012-13, the Non-Debt Receipts of the State increased from ₹ 13232 crore to ₹ 24813 crore against a corresponding higher increase in Primary Revenue Expenditure and Primary Expenditure. The Capital Expenditure fluctuated during 2008-13.
- During 2012-13 non-debt receipts of the State increased by 11 *per cent* while the primary expenditure during 2012-13 increased by 17 *per cent* which led to primary deficit during the year.

1.12 Market Borrowings of Government of Jharkhand

1.12.1 Introductory

Fiscal deficit represents the borrowing requirements of the Government during a year. The major divisions of borrowings are Internal Debt of the State Government and Loans & Advances from Central Government. The Internal Debt is divided into Market Loans and negotiated loans. Market borrowings are controlled by the Centre and managed by the Reserve Bank of India (RBI). States may not, without the consent of the Central Government, raise any loan if they are indebted to the Central Government (Article 293).

The ceiling for fiscal deficit (equal to borrowings) of the States is recommended by the Central Finance Commission (GOI). For the years 2008-09 and 2010-11, the limit was 3.5 *per cent* of GSDP, 4 *per cent* of GSDP for 2009-10 and 3 *per cent* of GSDP for 2011-12 & 2012-13. Accordingly, the State Government also fixed same limit in the State FRBM Act. The Act prescribed use of borrowings for generation of productive assets.

Planning Commission (GOI) approves the scheme of financing the Annual Plan and the borrowing requirement. Government also prepares estimates for receipts and repayments under Market loans in the State Budget. During 2008-13, the State Government raised all Market loans through auction by RBI having tenure of 10 years.

We conducted the review on Market Borrowings of Government of Jharkhand (GoJ) during May to June 2012 through test check of records of the Finance Department to examine whether the requirement of market borrowings was assessed efficiently and the borrowed funds were applied for creation of productive assets. An exit conference was held on 10 September 2013 with the Secretary, Finance Department, when the significant audit findings and overall debt sustainability indicators of the State were discussed.

1.12.2 Position of Market Borrowings in Jharkhand

Table 1.32 shows the amount of market loans raised during the years 2008-09 to 2012-13 and the amount outstanding at the end of the year.

Table 1.32: Position of Market Loans

(₹ in crore)

Year	Opening balance	Market loans raised	Total	Market loans repaid	Closing balance	Net Increase/ Decrease (*per cent*)
2008-09	4735.75	1486.00	6221.75	248.26	5973.49	+1237.74 (26.14)
2009-10	5973.49	1843.98	7817.47	170.20	7647.27	+1673.78 (28.02)
2010-11	7647.27	500.00	8147.27	302.03	7845.24	+197.97 (2.59)
2011-12	7845.24	1254.05	9099.29	468.73	8630.56	+785.32 (10.01)
2012-13	8630.56	3600.00	12230.56	454.98	11775.58	+3145.02(27.14)

Source: Finance Accounts 2008-13 and Finance Department, Govt. of Jharkhand

1.12.3 Debt sustainability indicators-total liabilities vis-à-vis market loans

The position of market borrowings vis-à-vis total liabilities and Public Debts in the State during the years 2008-09 to 2012-13 is **in Table1.33**

Table 1.33: Debt sustainability-market loans vis-à-vis total liabilities

(₹ in crore)

Description	2008-09	2009-10	2010-11	2011-12	2012-13
Total Liabilities at the end of the year	24084.00	27165.00	28655.00	30664.00	34869.00
Growth rate of total liabilities(in *per cent*)	11.4	12.8	5.5	7.00	13.7
Total Public debt (Outstanding)	17568.15	19880.00	21131.39	22285.78	25201.58
Growth rate of Public Debt (in *per cent*)	10.78	13.16	6.29	5.46	13.08
Total Market loans (Outstanding)	5973.49	7647.27	7845.24	8630.56	11775.58
Growth of Market Borrowing	26.14	28.02	2.59	10.01	36.44
Percentage of market loans to total liabilities	24.80	28.15	27.37	28.14	33.77
Percentage of market loans to public debt	34.00	38.47	37.12	38.72	46.73
Interest paid on market loans	384.79	527.84	609.23	618.65	687.76
Interest payments to Revenue Receipts ratio	0.14	0.15	0.12	0.10	0.09
Average interest rate on market loans raised during the financial year	7.42	8.27	8.28	8.96	8.79
GSDP growth rate to Interest rate ratio	0.55	1.62	3.13	1.53	1.58
Revenue surplus/ deficit	(+) 336	(-) 10	(+) 836	(+) 1428	(+) 1370
Fiscal Deficit	(-) 3114	(-) 3011	(-) 2112	(-) 1924	(-) 3406
Percentage of fiscal deficit to GSDP	3.5	2.90	1.68	1.37	2.17
Percentage of total liabilities to GSDP	27.43	27.00	22.77	21.82	22.24
Percentage of Public Debt to GSDP	20.01	19.76	16.79	15.86	16.07
Outstanding guarantees	500.00	500.00	-	-	77.78
GSDP	87794	100621	125824	140558	156781
GSDP growth rate (in percentage)	4.6	14.6	25	11.7	11.5

Sources: Finance Accounts & Reports 2008-13, Finance Department, Govt. of Jharkhand

- The total liabilities to GSDP percentage decreased significantly from 27.43 *per cent* in 2008-09 to 21.82 *per cent* in 2011-12 and then marginally increased to 22.24 *per cent* in 2012-13. Similarly, percentage of total public debt to GSDP decreased from 20.01 in 2008-09 to 16.07 in 2012-13. Decline in the ratio was mainly due to higher growth in GSDP in comparison to total liabilities and Public Debt in absolute term.
- In comparison to total liabilities, market loans increased from 24.80 *per cent* in 2008-09 to 33.77 *per cent* in 2012-13, while ratio of market loans to total public debt increased from 34.00 *per cent* in 2008-09 to 46.73 *per cent* in 2012-13. This indicated more reliance of

the State Government on market borrowings to finance its fiscal deficit.

- The percentage of fiscal deficit to GSDP increased from 1.37 in 2011-12 to 2.17 in 2012-13 because of high growth of fiscal deficit during 2012-13 and decline in GSDP growth compared to the previous year.
- The average rate on market borrowings ranged between 7.42 *per cent* and 8.96 *per cent* during the period 2008-13, significantly higher than interest rate of Government of India Securities (14 days Treasury bills).
- The ratio of Interest Payments to Revenue Receipts has declined steadily from 0.14 in 2008-09 to 0.09 in 2012-13 which indicated improvement in debt sustainability and resources of the State.

1.12.4 Maturity trend of Market loans

The year wise position of maturity trend of market loans, outstanding as on 31 March 2013 for the period 2013-23 is given at **Table 1.34** below:

Table 1.34: Maturity trend of market loans

Maturity Year	Maturity Amount (₹ in crore)	As a per cent of outstanding market loans
2013-14	415	3.52
2014-15	462	3.92
2015-16	594	5.04
2016-17	428	3.63
2017-18	1192	10.12
Total (2013-18)	**3091**	**26.25**
2018-19	1486	12.62
2019-20	1844	15.66
2020-21	500	4.25
2021-22	1254	10.65
2022-23	3600	30.57
Total (2018-23)	**8684**	**73.75**
Total	**11775**	**100.00**

Source: Finance Accounts 2012-13

It was evident from the above that the redemption liabilities of market loans during the years 2013-18 would be ₹ 3091 crore (26 *per cent*) of the outstanding market loans. However, from the year 2018-19 onwards up to 2022-23 there will be increase in redemption pressure as ₹ 8684 crore (74 *per cent*) of outstanding market loans would required to be paid by the State. We further observed that repayment obligations of market loans of ₹ 523 crore was rolled over during 2008-10 by taking fresh loans of 10 year tenure.

1.12.5 Interest rate profile

Interest rate on market loan raised during 2008-13 is given in **Table 1.35**

Table 1.35: Interest rate profile

(₹ in crore)

Rate of interest (*per cent*)	Market loans raised during the year					
	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Below 5	Nil	Nil	Nil	Nil	Nil	Nil
5-5.99	Nil	Nil	Nil	Nil	Nil	Nil
6-6.99	443.55	Nil	Nil	Nil	Nil	443.55
7-7.99	400.00	517.45	Nil	Nil	Nil	917.45
8-8.99	642.45	1326.53	500.00	500.00	3100.00	6068.98
9-9.99	Nil	Nil	Nil	754.05	500.00	1254.05
10-10.99	Nil	Nil	Nil	Nil	Nil	Nil
Total	1486.00	1843.98	500.00	1254.05	3600.00	8684.03
Average Interest Rate on market loans raised during the year	7.42	8.27	8.28	8.96	8.79	

Source: Finance Accounts 2008-13 and FD, Govt. of Jharkhand

It was seen from the above that the average interest rate of market loans raised during the year increased from 7.42 *per cent* in 2008-09 to 8.96 *per cent* in 2011-12 and marginally dipped to 8.79 *per cent* during 2012-13.

1.12.6 Market loans raised despite availability of sufficient cash balance

The XIII Finance commission recommended that States with large cash balances should make efforts towards utilising existing cash balance before resorting to fresh borrowings and follow the practice of borrowings on requirement rather than on availability. Further, the State assesses the cash requirements for a month/quarter on the basis of daily cash balance statement sent by CAS, Nagpur, RBI.

We observed that the GoJ borrowed market loans amounting to ₹ 2343.89 crore during the years 2009-10 and 2010-11 on five occasions at an average interest rate of 8.08 *per cent.* The amount was not immediately required, as the entire amount remained part of '14 days Treasury Bills' till the end of the concerned financial year except on 31 March. We observed that the minimum cash balances (invested in Treasury Bills) throughout the years 2009-10 and 2010-11 were ₹ 696.54 crore and ₹ 779.29 crore respectively, against the required minimum balance of ₹ 0.45 crore for the State. Thus, despite having sufficient cash balances Government raised market loans of ₹ 1843.98 crore[15] and ₹ 500 crore[16] during 2009-10 and 2010-11 respectively.

The Secretary, FD stated (October 2013) that the market borrowings were necessitated due to cash crunches in those years. Further, drawal was meant for the whole quarter or month in which drawn and not for the day on which drawn. Market borrowings cannot be resorted daily based on day to day requirement. The reply was not in order since the State drew the loans much

[15] 17.4.2009: ₹ 517 crore, 5.8.2009: ₹ 474 crore, 9.9.2009: ₹ 600 crore and 30.10.2009: ₹ 252 crore
[16] 12.5.2010: ₹ 500 crore

higher than the actual requirement of cash at any point of time during 2009-10 and there was no requirement of borrowing at all during 2010-11.

Further, we observed that Government earned interest at a rate of five *per cent* per annum while the State Government raised Market loans at higher average rate of 8.08 per cent. As a result, the State had to bear extra interest liabilities of 3.08 *per cent* in shape of interest amounting to ₹ 51.22 crore during the same period. Details are given in ***Appendix 1.7***

1.12.7 Advance Indicative Calendar for Market borrowings

Reserve Bank of India advocated (June 2006) the adoption of Indicative Calendar for open market borrowings by the States so that the tentative amount and timing of the open Market borrowing programme of the State for the coming quarter of a financial year may be known in advance. It was concurred (August 2006) by the GoJ. Scrutiny revealed that GoJ did not prepare the Advance Indicative Calendar for open market borrowings based on cash requirements of the State during 2008-13, except in 2012-13. Even in 2012-13 actual market borrowings was in variation with the proposed advance indicative calendar. Details given in ***Appendix 1.8***

1.12.8 Borrowings in excess of the amount approved by GOI

According to Article 293 of the Constitution, approval of GOI is required before raising the market loans by the State Government. The borrowings may be utilized as per object of the loans i.e. to provide support to the annual plan gaps approved in advance by the GOI.

Scrutiny revealed that during 2008-09, GOI accorded permission to borrow ₹ 1273 crore from open market in five phases to provide funds to GoJ. However, notifications were issued by the State and market loans raised for ₹ 1486 crore (from December 2008 to March 2009). We observed that based on GoI permission (10 February 2009) for raising loans of ₹ 322 crore, GoJ asked (27 February 2009) RBI to raise the loan amount. The GoJ however consented (04 March 2009) to RBI's willingness (02 March 2009) to raise ₹ 538.53 crore. RBI raised loans of ₹ 535 crore on March 12, 2009. Thus, the State acquired excess market loans amounting to ₹ 213 crore, which did not have GOI's consent under Article 293(3).

In reply, the Secretary, FD stated (October 2013) that market borrowings were necessitated due to cash crunch in 2008-09. The reply is not in order, since the minimum cash balance from 1 February to 11 March 2009 was ₹ 2030 crore (the amount was drawn on 12 March 2009). Besides, the minimum cash balance of the State from 12 March to 31 March 2009 was ₹ 974.58 crore, which indicated that the market loans raised in excess of the amount approved by GOI was not at all necessary. Even, drawal of the original sanctioned amount of ₹ 322 crore was not necessary.

1.12.9 System to watch utilisation of Market Borrowing

The Jharkhand FRBM Act, 2007 prescribed use of borrowings for generation of productive assets. The Government in each tranche of loan, notified the objective of raising of market loan as support to Annual Plan. We observed that no system was evolved for monitoring of utilization of the Market loans raised by the FD. As a result, utilisation/application of Market loans for the

intended objectives could not be ascertained. We observed that the amounts of capital expenditure (including loans disbursed) were higher than the net borrowings in all the years during the period 2008-13. The details of Capital Expenditure has already been discussed in para 1.6.1.1 above.

In reply, the Secretary, FD stated that the capital expenditure was commensurate with market borrowings and needs. Utilisation of Market loans could be ensured from the capital expenditure of the State, which was higher in comparison to Market loans.

Reply of the FD is not in consonance with the provision of Jharkhand FRBM Act and notifications issued by the State Government because it could not be ascertained whether productive assets were generated and which development schemes were financed out of market loans.

1.13 Follow up

Public Accounts Committee had discussed paragraph 2.3.5 (Excess over provisions relating to previous year) of the Audit Report on State Finances for the year 2009-10 during 2011 and 2012. Similarly, Paragraphs 2.4.3 (Expenditure without provision), 2.4.4 (Excess over provisions relating to previous year), 2.4.5 (Excess over provisions during 2010-11), 2.4.9 (Surrender in excess in actual savings) and 2.5.2 (Un-reconciled expenditure) of the Audit Report on State Finances 2010-11 were discussed in October 2012.

1.14 Conclusion

Review of fiscal situation

- The growth of GSDP during 2012-13 was 11.5 *per cent,* against the TFC norm of 14.5 *per cent* for the year.

- The State had a Revenue Surplus of ₹ 1370 crore during 2012-13. During the current year Fiscal Deficit increased to ₹ 3406 crore. It was 2.2 *per cent* of GSDP, well within the ceiling (3 *per cent*) recommended by the TFC.

Transfer of funds to State Implementing Agencies

- Due to direct transfer of GoI funds to the State Implementing Agencies outside the State Budget, the Annual Accounts do not provide a complete picture of the resources of the State.

Management of fiscal imbalances and resources mobilization

- While the Revenue Receipts (₹ 24,770 crore) of the State grew at 10.5 *per cent* during 2012-13 over previous year, these were less (by ₹ 7656 crore) than the Budget Estimate.

Capital expenditure

- The Capital Expenditure (CE) increased to ₹ 4218 crore in 2012-13 against ₹ 3159 crore in 2011-12. While, the CE in Education Sector

increased the CE in Health Sector decreased over the previous year. The State has given less priority to both Education and Health Sectors as compared to General Category States.

Review of Government investments

- The return in investment in Government Companies, Co-operatives, Banks and Societies etc. during 2012-13 was 7.99 *per cent* of total investment, which was less than the cost of borrowings (8.76 *percent*).

Fiscal Liabilities

- Fiscal Liabilities of the State (₹ 34,869 crore) grew at 14 *per cent* over the previous year. The Fiscal Liabilities were 22.2 *per cent* of GSDP better than the TFC recommendation of 28.7 *per cent* for the year. Government has not set up Sinking Fund for amortization of all loans.

Market Borrowings

- The share of market loans in total liabilities increased from 24.80 *per cent* in 2008-09 to 33.77 *per cent* in 2012-13. State raised loans despite having sufficient cash without assessing the immediate requirement of cash. Government did not have any mechanism to ensure use of borrowed funds for generation of development activities.

1.15 Recommendations

- Government may ensure achievement of its own fiscal targets projected in Mid Term Fiscal Plan.
- A system should be put in place to ensure proper accounting and monitoring the use of funds directly transferred by the Government of India to the State implementing agencies.
- Government should invest its high cost borrowed funds judiciously to get better returns.
- The State should set up Sinking Fund for amortization of loans.
- Open Market Borrowings should be need based rather than its availability. Market loans should be raised after utilization of the surplus cash and a mechanism may be evolved to ensure utilisation of the borrowed funds for generation of developmental activities.