# CHAPTER V

## CONCLUSIONS AND SUGGESTIONS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Study in Retrospect</td>
<td>325</td>
</tr>
<tr>
<td>Important Conclusions</td>
<td>326</td>
</tr>
<tr>
<td>Tenability of the Hypothesis</td>
<td>338</td>
</tr>
<tr>
<td>Suggestions</td>
<td></td>
</tr>
<tr>
<td>Suggestions for the Management of the Revenue</td>
<td></td>
</tr>
<tr>
<td>Expenditure of Government of Kerala</td>
<td>340</td>
</tr>
<tr>
<td>Suggestions for further Research</td>
<td>351</td>
</tr>
</tbody>
</table>
THE STUDY IN RETROSPECT

The present study, as stated earlier, has been designed to chalk out a viable system for managing the revenue expenditure of Government of Kerala based on the analysis and findings. The study is based on the revenue expenditure (actuals) of government of Kerala, compiled from the Finance Accounts of the state, for the period 1990-91 to 2001-02. The collected data are analysed to throw light on the fundamental questions stated as objectives. The objectives set for the study were:

a. To study the trends of various components of revenue expenditure such as sectors, sub-sectors, major/sub-major heads, plan, non-plan, voted and charged.

b. To analyse each item (headwise) of revenue expenditure in comparison with Total Revenue Receipts (TRR) and Total Revenue Expenditure (TRE)

c. To identify and appropriately classify each item (headwise) of revenue expenditure under different risk classes and

d. To suggest appropriate expenditure management strategies for each item of risk classified revenue expenditure based on the analysis and findings.

To realise these objectives, eighty four (84) major/sub-major heads of expenditures spread out in twenty three (23) sub-sectors under the four (4) different sectors namely: General Services, Economic Services, Social Services and Grants-in-Aid and Contributions (See Chapter III) were analysed with emphasis laid on the headwise analysis.
IMPORTANT CONCLUSIONS

The major conclusions of the study are derived out of the two Sections in chapter IV namely Section A and Section B. Section A sets forth the analysis of the impact of various revenue expenditures, on Total Revenue Receipts (TRR) and Total Revenue Expenditure (TRE), both in terms of rate of increase and size. For this purpose expenditures were categorised into risk groups such as Low Risk Expenditures (LREs), Moderate Risk Expenditures (MREs), Risk Expenditures (REs) and High Risk Expenditures (HREs), under four different categories of analysis as explained below:

a. **Category I & II** - Analysis of the percentage increase in the expenditure concerned in comparison with the percentage increase in TRR and TRE. Out of the total twelve years compared, if the number of years in which the percentage increase in the expenditure concerned exceeds the corresponding increase in TRR and/or TRE falls, in the range of 0-2 years, the expenditure is termed as LRE; if falls in the range of 3-5 years, the expenditure is termed as MRE; if falls in the range of 6-8 years, the expenditure is termed as RE and if falls in the range of 9-11 years the expenditure is termed as HRE.

b. **Category III & IV** - Analysis of the average percentage share of the expenditure in comparison with 3 average TRR and 4. TRE. If the average share of the concerned expenditure is less than one percent of TRR or TRE, the expenditure is termed as LRE; equal to or greater than one percent but less than four percent, it is termed as MRE; equal to or greater than four percent but less than eight percent, it is termed as RE and equal to or greater than eight percent, it is termed as HRE.

Section B was intended to chalk out strategies for managing the revenue expenditure of Government of Kerala based on discussions with experts, literature reviewed and the risk classified revenue expenditures. To identify the risk class of an expenditure,
different score values were assigned to the various risk groups categorised in section A as follows. For LREs, the score given is one; for MREs it is two; for REs it is three and for HREs it is four.

The scores for different risk groups are then totalled, to finally define the risk class of an expenditure in the manner stated thus:

(a). If the combined total score of an expenditure is equal to four, it is classified as a Low Risk Expenditure

(b). If the combined total score lies between five and eight, it is classified as a Moderate Risk Expenditure

(c). If the combined total score lies between nine and twelve, it is classified as a Risk Expenditure and

(d). If the combined total score lies between thirteen and sixteen, it is classified as High Risk Expenditure.

A. Conclusions based on Sectoral Analysis of Expenditure

1. General Service Sector: The General Service Sector consists of five sub-sectors divided into twenty nine (29) major/sub-major heads of expenditure (Chapter III). Out of the twenty nine major/sub-major heads analysed, five of them have been identified as having significant bearing on both TRR and TRE, with regard to their rate of increase and size. They include (a). Other Fiscal Services (b). Interest on Internal Debt (c). Interest on Small Savings, Provident Funds etc. (d). Interest on Loans and Advances from Central Government and (e). Pensions and Other Retirement Benefits.

The configuration of expenditure under General services, reveals the apparent dominance of the non-plan component of which the voted content is more preponderent.
General services registers a massive growth of 566.76 percent in a twelve year period well enough to outrun the rate of increase in both TRR and TRE in as many as ten and eleven years respectively out of twelve. As a share of TRR, on an average, it comes about 51 percent and of TRE it is 41 percent. Thus both in terms of rate of increase and the size, General Services exerts tremendous influence on the Total Revenue Expenditure as well as Total Revenue Receipts. (Table 4.35 A,B,C Chapter IV)

2. The Economic Services: Under this sector, 37 major/sub-major heads of expenditure in as many as eight sub-sectors were analysed. Out of the 37 analysed, seven major heads were identified as having significant bearing on TRR and TRE both with regard to rate of increase and size. They include (a). Crop Husbandry (b). Forestry and Wild Life (c). Food, Storage and Warehousing (d). Other Agricultural Programs (e). Other Rural Development Programs (f). Flood Control and Drainage and (g). Village and Small Industries.

The Economic Sector is dominated by the voted outlay under both the plan and non-plan segments of which the plan voted content is having more command in the total make up. As against a moderate growth recorded in the non-plan content, the plan voted outlay registers a phenomenal increase. It raced to the massive figure of Rs.106577.15 lakhs (440.91 percent) in 2001-02 from Rs. 24171.86 lakhs (100 percent) in 1990-91, showing a growth of about four and a half times in a twelve year period. (Table 4.81 A&B). The percentage rise in Economic Services rose above a similar increase in TRR in six years out of twelve while on a similar cross match with TRE, it outran the latter in eight years out of twelve (Table 4.81 C Chapter IV). Economic sector consumes 24.45 percent of TRR on an average. In certain years, it reached as high as 31.85 percent. As a share of TRE Economic Services averages at 19.96 percent (Table 4.81 C Chapter IV).

3. Social Service Sector: It consists of eight sub-sectors divided into seventeen major /sub-major heads of expenditure. General Education (GE) and Urban
Development (UD) are the two major heads having a significant bearing on TRR and TRE. While GE influences TRR and TRE in terms of its huge size, UD gains attention for its alarming growth rate.

The Social Service Sector is mainly made up of the non-plan voted component. It simply outplays the plan content by eating away the chunk of the revenue. But when compared with a moderate growth in the non-plan content, the plan content grows conspicuously - recording an increase of about 438.67 percent in 2001-02 from 100 percent in 1990-91. Due to the high paced growth in the plan content, the grand total of the Social Services grows faster than the non-plan content grew. From 100 percent (Rs.127483 lakhs) in 1990-91, Social Services rose to 319.71 percent (Rs. 407582.56 lakhs) in 2001-02. (Table 4.104 A,B Chapter IV). Though a three fold increase is recorded, it is not so remarkable as Social Services has never risen above the rate of increase in either TRR or TRE. (Table 4.104 C Chapter IV) But the average size of SS that makes the real problems. On an average it consumes about 46 percent of TRR and accounts for 37.78 percent of TRE. (Table 4.104 C).

4. Grants-in-Aid and Contributions (GIA &C): This sector is fully made up of the voted portion of the non-plan content. It registers only a moderate growth of roughly about two times in a twelve year period; it rose from 100 percent (Rs. 3229.86 lakhs) in 1990-91 to 207.44 percent (Rs. 6699.87 lakhs) in 2001-02 (Table 4.105A,B). Grants-in-Aid & Contributions grew faster than both TRR and TRE in five years each out of twelve. The relative share of GIA&C to TRR and TRE is averaging at 1.16 percent and 0.94 percent respectively (Table 4.105C Chapter IV).

B. Conclusions based on Analysis of Total Revenue Expenditure

1. The aggregate combined outlays on Revenue Expenditure for the period 1990-91 to 2001-02, brings to light the preponderance of the non-plan component of which the voted content is more dominant. But in terms of rate of growth, the charged non-plan
plan content heavily outdistance the other components. Embedding the impact of its major components, the total revenue expenditure, too, registers an appreciable growth of about 412.82% during the same period. Having touched the gigantic figure of Rs. 1187790.99 lakhs in 2000-01, it dwindles to Rs.1166202.71 lakhs in 2001-02, showing a four fold increase.

2. The analysis further reveals that there is a wide gap between the Total Revenue Receipts (TRR) and Total Revenue Expenditure (TRE), leaving a huge revenue deficits (revenue expenditure - revenue receipts) year after year. It started racing far ahead of revenue receipts from 1998-99 onwards. A twelve year average shows that for every Rs. 100 of revenue raised, the expenditure incurred is Rs. 122, leaving an average revenue deficit of Rs. 22 (22%) every year. There is a wide gap between Revenue Expenditure and Capital Expenditure as well in the total composition. The average share of Revenue Expenditure and Capital Expenditure in the total stood at 93.6% and 6.4% respectively.

C. Conclusions based on Risk Classified Revenue Expenditure


3. Risk Expenditure

i. Other Fiscal Services (OFS): Other Fiscal Services is fully constituted of the voted non-plan component. It becomes a risk expenditure mainly because of its high rate of growth. It grew much faster than both TRR and TRE in all eleven years out of the twelve year period. (Table 4.15C Chapter IV). Promotion of Small Savings is the one single minor head contributing to this awesome growth. At the close of the financial year 2001-02, it stood at Rs. 7100.35 lakhs, representing about 99 percent of the expenditure incurred under OFS.
ii. Crop Husbandry (CH): Crop Husbandry turns out to be a Risk Expenditure not only because of its conspicuous growth but also of the relatively high average share it bears to both TRR and TRE. It grew faster than TRR in eight years and TRE in six years each respectively out of the twelve. Moreover its average share in TRR is 2.79 percent and in TRE is 2.28 percent.(Table 4.36C Chapter IV). The chief contributory minor heads falling under CH include Direction and Administration, Other Expenditures and Horticultural and Vegetable crops. For the financial years 2001-02, they together represented a huge sum of Rs. 12784.42 lakhs being 65 percent of the total, of which the share of Direction and Administration alone is 27 percent. When compared to its huge revenue component of Rs. 19632.59 lakhs, the capital expenditure incurred on CH during 2001-02 is only Rs. 80.92 lakhs (Actuals 2001-02)

iii. Forestry and Wildlife (F&WL): It raced ahead of the growth in TRR and TRE in nine years each out of the twelve year period. In addition, it bears an average share of 1.41 percent and 1.15 percent respectively to TRR and TRE. These findings justifiably rate it as a Risk Expenditure (Table 4.41C Chapter IV). F&WL stands to represent money spent on the minor heads of Direction, Administration and Other Expenditures, Education and Training, Research, Survey, Forest Resources, Forest Conservation and Wildlife Protection, Social Forestry and Statistics. Of these minor heads, Direction, Administration and Other Expenditure, Forest Conservation and Wildlife Protection and Social Forestry together accounted for about 80 percent of the total outlay (Rs.13349.2 lakhs) under F&WL as on 31st March 2002. The capital expenditure incurred on F&WL as at the close of financial year 2001-02 was only Rs. 197.12 lakhs as against the huge revenue component of Rs. 13349.20 lakhs (Actuals 2001-02).

iv. Food Storage and Warehousing (FS&W): A spectacular growth of about seven and a half times in a twelve year period coupled with a relatively high average share lends FS&W categorised as a Risk Expenditure. It grew much faster than both TRR & TRE in all eight years out of the twelve year period. At the same time it bears an average share
of 1.18 percent to TRR and 0.96 percent to TRE (Table 4.42 C Chapter IV). These parameters better manifest its risk potential. It is mainly composed of three minor spending streams namely, Assistance Public Sector Undertakings, Procurement and Supply and Other Expenditure. Of these minor heads, Assistance to Public Sector Undertakings alone accounts for Rs. 3300 lakhs, representing about 80 percent of the money spent under FS&W (2001-02 actuals). Further there is a wide gap between the revenue capital compositions. For the year 2001-2002, they stood at Rs. 4130.89 lakhs and Rs. 356.71 lakhs respectively.

v. Other Agricultural Programmes (OAP): A formidable growth of about ninety four times in a twelve year period, identifies OAP as a Risk Expenditure. This ominous growth heavily outpaced the growth rate in both TRR and TRE in all the years of study (Table 4.45C Chapter IV). OAP mainly controls sums expended on the minor heads of Marketing, Grading and Quality Control facilities. Of the two, Grading and Quality Control Facilities alone eats away about 78 percent of the total money allotted of Rs.981.91 lakhs under it contributing heavily to this alarming growth.

vi. Other Rural Development Programmes (ORDP): Both in terms of size and growth, ORDP lends it identified as a Risk Expenditure. On an average it accounts for 6.55 percent of TRR and 5.35 percent of TRE. It raced ahead of the growth in both TRR and TRE in as many as six years each out of the twelve year period (Table 4.50C Chapter IV). The money under this head is mainly spent on Direction and Administration, Training, Panchayathi Raj, Assistance to Local Bodies and Other Expenditures. As on 31st March 2002 about 80 percent of the total sum of Rs. 68590.87 lakhs spent under this head is accounted for by the minor head assistance to local bodies.

vii. Flood Control and Drainage (FC&D): FC&D registers an alarming growth well enough to outpace the rate of increase in both TRR and TRE in all eleven years out of the twelve year period. This massive growth of about five times in a twelve year
period rates it as a Risk Expenditure (Table 4.58C Chapter IV). It stands to mainly represent money spent on anti-sea erosion projects.

viii. Village and Small Industries (V&SI): It shows an impressive growth of about 3.5 times in a twelve year period. Moreover it bears an average share of more than one percent (1.32 percent and 1.08 percent) to TRR and TRE. These findings reckon it as a Risk Expenditure (Table 4.61C Chapter IV). V&SI has its main spending streams in the minor heads of Small Scale Industries, Khadi and Village Industries and Coir Industries; their respective share to the total of Rs. 10805.62 lakhs as on March 2000 being 26.97 percent, 24.79 percent, 10.73 percent and 26.10 percent. Thus these three minor heads together comes about 89 percent of the total. With regard to the revenue capital mix, the former outweights the latter heavily; the revenue component stood at Rs. 10805.62 lakhs as against a small capital component of Rs. 691.55 lakhs in 2001-02.

ix. General Education (GE): General Education is rated as a Risk Expenditure mainly because of the massive size it bears to both TRR and TRE. It is the single one head that eats away the chunk of the revenue. On an average it consumes 26.58 percent of TRR and accounts for 21.70 percent of TRE (Table 4.82C Chapter IV). Every year the government has to earmark huge sums of money in the form of Assistance to State Aided Institutions. As at the end of 2002, these financial assistance amounted to Rs. 133328.34 lakhs - being 57.77 percent of the total GE. A substantial share of GE is expended on Elementary Education, Secondary Education and Higher Education; of which the first two taken together account for Rs. 180127.94 lakhs, representing 78 percent of total GE. This awesome share of the two coupled with their contributions to the Aided sector takes the total outlay on GE to towering heights. The capital expenditure on GE is meagre, only Rs. 809.51 lakhs when compared with its huge revenue component of Rs. 230805.80 lakhs (Actuals 2001-02). It was also found that about 80 percent of the outlay represents salaries to teachers and employees.
x. Urban Development (UD): The alarming growth rate of about twenty three times in a twelve year period renders UD to be rated as a Risk Expenditure. It heavily overshadowed the growth rate in both TRR and TRE in all the eleven years out of the twelve year period (Table 4.92 C Chapter IV). Sums under UD is mainly expended on the schemes of State Capital Development, Development of Small and Medium Towns and Slum Area Improvement.

4. High Risk Expenditure

i. Interest on Internal Debt (IOID): Both in terms of volume and rate of growth, IOID is rated as a High Risk Expenditure. The average size of IOID in TRR is 6.51 percent and in TRE 5.32 percent. It registered a formidable growth of about 9.5 times in a twelve year period, heavily overshadowing the rate of growth in both TRR and TRE in all the years of study (Table 4.17C Chapter IV). The chief contributory minor heads under IOID are a. Interest on Market Loans representing 62.56 percent of the total outlay and b. Interest on Other Internal Debts, accounting for about 20 percent of the total outlay under this major head. (Actuals as on March 2002).

ii. Interest on Small Savings, Provident Funds, etc (ISSPF): It grew much faster than the TRR and TRE in all the years of study by recording an increase of about 7.5 times in a twelve year period. The average share it bears to TRR is 6.33 percent and to TRE is 5.17 percent (Table 4.18C Chapter IV). It consists mainly of the minor heads of Interest on State Provident Fund, Interest on Insurance and Pension Fund and Interest on Other Saving Deposits. Of these streams, Interest on Other Savings Deposits along came to Rs. 44163.84 lakhs (57.37 percent) as at 2002. This is followed by an imposing share of Interest on State Provident Funds, worked out at 37.67 percent of the total of Rs.76976.74 lakhs (2002 actuals).
iii. Interest on Loans and Advances from Central Government (IL&ACG):
This item is identified as a High Risk Expenditure on the basis of its size and rate of growth. On an average it eats away 8 percent of TRR and accounts for 6.53 percent of TRE. Moreover registering about a 5.5 times in a twelve year period, it outpaced the growth rate in both TRR and TRE in all the years of study (Table 4.19C Chapter IV). Of the total sum of Rs. 77855.78 lakhs expended, about 54 percent is accounted for by the minor head Interest on Loans for State Plan Schemes. This is followed by yet another huge share of 40 percent under the minor head Interest on Loans for Non Plan Schemes. These two streams taken together represent about 90 percent of the total.

These three major heads namely, IOID, ISSPF and IL&ACG taken together accounts for 20.84 percent of TRR and 17.01 percent of TRE under the sub sector Interest Payments and Servicing of Debts. The average effective interest rate for the state government is still 11.08 percent - much above the market rates.

iv. Pension and Other Retirement Benefits (PORB): This is yet another expenditure of concern feared of its ominous growth and huge size. Racing far ahead of both TRR and TRE, it registered a conspicuous growth of about six times in a twelve year period. Moreover it eats away the chunk of revenue (16.21 percent) and accounts for a major share of expenditure (13.23 percent). These findings together with its propensity to grow make PORB a High Risk Expenditure (Table 4.33C Chapter IV). It consists of government money spend on Superannuation and Retirement Allowance, Commuted Value of Pensions, Gratuities, Leave Encashment Benefits, Contributions to Pensions, Pensions to Employees of State Aided Institutions, etc. Out of these major spending minor heads, Superannuation and Retirement Allowances alone constitutes about 47 percent of the total of Rs. 19379.60 lakhs. This is followed by Commuted Value of Pension (15.31 percent), Gratuities (13.58 percent) and Pensions to Employees of State Aided Educational Institutions (12.33 percent). Taken together they come about 99 percent of the total (Actuals 2001-02)
Out of the eighty four major heads analysed fourteen of them have been identified as High Risk and Risk Expenditures. A combined analysis of these HREs and REs reveals that on an average they together account for about 79.04 percent of TRR and 64.51 percent of TRE (Table 4.108 Chapter IV). Out of the fourteen High Risk and Risk Expenditures identified, five major heads, in particular, is worth mentioning. They include Interest on Internal Debt, Interest on Small Savings, Provident Funds, etc, Interest on Loans and Advances from the Central Government, Pension and Other Retirement Benefits and General Education. On average these five major heads together account for 63.63 percent of TRR and 51.95 percent of TRE.

D. Conclusions based on Systemic and Procedural Weaknesses in Public Expenditure Management

In the light of the discussions and interviews with experts, literature reviewed and data analysed, the following systemic and procedural weaknesses that undermine the management of public expenditure of the Government of Kerala have been identified. They include: (1). Arbitrary estimate of expenditure (2). Lack of proper link between policy making, planning and budgeting (3). Inadequate accounting system (4). Poor expenditure control (5). Inadequacies of financial auditing (6). Stagnant and tradition bound organisation structure (7). Poorly motivated staff (8). Lack of professionalism and market orientation (9). Limited application of computerised financial management information system (10). Lack of transparency in financial operation and financial reporting (11). Inadequate Public Expenditure Review System and (12). Other unsound financial practices like token provisions, extra budgetary provisions, before hand determination of non-plan revenue expenditure, arbitrary release of funds to autonomous institutions and local bodies, inappropriate allocation of expenditure and tax expenditure
Tenebility of the Hypothesis

Hypothesis - I

The first hypothesis that “sectorwise comparison of Revenue Expenditure in terms of rate of increase and as a percentage share of TRR and TRE indicates that out of the four sectors (consisting of eighty four major heads), General Services will rank first followed by Economic Services, Social Services and Grants-in Aid and Contributions” is partially substantiated after the analysis and findings as follows: Table 5.1 reveals that;

a. Sectorwise comparison in terms of rate of increase for a twelve year period from 1991-2002 (base year 1990-91) depicts General Service Sector Ranked 1 followed by Economic Services, Social Services and Grants-in Aid and Contributions and

b. Sectorwise comparison in terms of percentage share of TRR and TRE (twelve year average) reveals General Services ranked 1 followed by Social Services, Economic Services and Grants-in Aids and Contributions.

Hypothesis - II

The second hypothesis that “headwise comparison in terms of Risk Expenditures and High Risk Expenditures indicate that most of the Risk and High Risk Expenditures will fall in the General Services Sector” is mostly substantiated as all the High Risk Expenditures fall under the General Services Sector. (Table 5.2)
### Table 5.1

**Tenability of Hypothesis I**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Percentage Increase as at the end of 2001-02</th>
<th>Average Share in TRR (in Percentage)</th>
<th>Average Share in TRE (in Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Services</td>
<td>Rank 1</td>
<td>Rank 1</td>
<td>Rank 1</td>
</tr>
<tr>
<td>Economic Services</td>
<td>Rank 2</td>
<td>Rank 3</td>
<td>Rank 3</td>
</tr>
<tr>
<td>Social Services</td>
<td>Rank 3</td>
<td>Rank 2</td>
<td>Rank 2</td>
</tr>
<tr>
<td>Grants-in Aid &amp; Contribution</td>
<td>Rank 4</td>
<td>Rank 4</td>
<td>Rank 4</td>
</tr>
</tbody>
</table>

### Table 5.2

**Tenability of Hypothesis II**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Head</th>
<th>Risk Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Services</td>
<td>Interest on Internal Debt</td>
<td>HRE</td>
</tr>
<tr>
<td></td>
<td>Interest on Small Savings and Provident Funds</td>
<td>HRE</td>
</tr>
<tr>
<td></td>
<td>Interest on Loans and Advances from Central Govt.</td>
<td>HRE</td>
</tr>
<tr>
<td></td>
<td>Pension &amp; Other Retirement Benefits</td>
<td>HRE</td>
</tr>
<tr>
<td></td>
<td>Other Fiscal Services</td>
<td>RE</td>
</tr>
<tr>
<td>Economic Services</td>
<td>Crop Husbandry</td>
<td>RE</td>
</tr>
<tr>
<td></td>
<td>Forestry and Wild Life</td>
<td>RE</td>
</tr>
<tr>
<td></td>
<td>Food, Storage and Warehousing</td>
<td>RE</td>
</tr>
<tr>
<td></td>
<td>Other Agricultural Programs</td>
<td>RE</td>
</tr>
<tr>
<td></td>
<td>Other Rural Development Programs</td>
<td>RE</td>
</tr>
<tr>
<td></td>
<td>Flood Control and Drainage</td>
<td>RE</td>
</tr>
<tr>
<td></td>
<td>Village &amp; Small Industries</td>
<td>RE</td>
</tr>
<tr>
<td>Social Services</td>
<td>General Education</td>
<td>RE</td>
</tr>
<tr>
<td></td>
<td>Urban Development</td>
<td>RE</td>
</tr>
</tbody>
</table>
Suggestions

Important Suggestions for the Management of the Revenue Expenditure of Government of Kerala (based on Section B, Chapter IV)

1. Management of Low Risk Expenditure: The Finance Department of Government of Kerala may totally ignore the amount expended on the thirty six major/sub-major heads identified as Low Risk Expenditures. Because an analysis of the twelve year actuals reveals that these items are not at all contributing to the fiscal drain of the state. However, a close watch may be made in the coming years to see that these expenditures are still in the Low Risk bracket.

2. Management of Moderate Risk Expenditure: A Moderate Risk Expenditure may have the tendency of turning into either a Low Risk Expenditure or a Risk Expenditure, for it lies in between the two. Therefore periodical monitoring of such items is necessary to make sure that they remain in the Moderate Risk Class or in the Low Risk Class.

However, out of the thirty four MREs identified, a few items in particular requires special monitoring and control because they either bear a relatively high average share to both TRR and TRE or grow much faster than them. They include expenditure incurred on the major heads of: Elections, Police, Miscellaneous General Services, Medical and Public Health, Welfare of Scheduled Castes and Schedules Tribes and Backward Classes, Fisheries, Roads and Bridges, Secretariate General Services and Tourism. Since these specified heads pertain to the economic-welfare function of the state, their quality, composition and efficiency should be regulated from a cost benefit angle, instead of mere expenditure cuts.
3. Management of Risk Expenditure:

1. *Other Fiscal Services*: The government of Kerala should examine the legitimacy of the minor head Promotion of Small Savings from a cost benefit angle to exercise better control over the expenditure. The government should also look into the extent to which the growth pattern of OFS are the result of deliberate policy of government or are the outcomes of circumstances beyond its control. Since OFS is fully constituted of the voted non-plan content, control exercise should begin right from when it is put to the scrutiny of the legislative committees (Subject Committee, Estimate Committee, etc) before it is finalised by the vote of the legislature.

2. *Crop Husbandry*: Crop Husbandry, being in the nature of a productive expenditure, should be controlled in quality. Thus the less productive administrative expenditure may be cut back to the minimum, leaving the amount so saved available for Horticultural and Vegetable Crops. The revenue-capital gap should be properly negotiated by diverting more funds from revenue to capital within the total allocation. This will enhance productive investment under Crop Husbandry. Since it is virtually constituted of the voted outlay, budgetary control and legislative control should be tightened over this item.

3. *Forestry & Wildlife*: The management should touch the micro bases of the three minor heads, namely, Direction, Administration and other Expenditures, Forest Conservation and Wild Life and Social Forestry with special emphasis laid on the less productive Direction, Administration and Other Expenditures. In addition, the legitimacy and benefit incidence of Social Forestry should be inquired into with a view to reprioritise and rationalise the expenditure. The widening gap between the revenue and capital expenditure is yet another point of concern. Therefore, out of the total budgetary allocations, more funds should be allotted to the more productive capital
component by cutting back the revenue expenditure. Further it is once again predominated by the voted component. Therefore budgetary controls and legislative controls remain as the premier considerations.

4. **Food, Storage and Warehousing**: Money spent under the minor head Assistance to Public Sector Undertakings (80 percent of the total) should be brought under periodical review. There is also a wide gap between the revenue capital composition. Therefore proper change in the mix and composition of this expenditure is imperative. Moreover, financial planner and legislators should try to contain this expenditure at the planning the budgeting stages for it is in the nature of fully voted outlay.

5. **Other Agricultural Programmes**: The spending agency should make a close watch on the qualitative dimensions of the minor head Grading and Quality Control, for it is in the nature of a productive expenditure. Since it is fully voted and that the plan content being more dominant budgetary and legislative control should be effectively exercised in containing this expenditure.

6. **Other Rural Development Programmes**: The rationale of the minor spending stream, Assistance to Local Bodies should be looked into from a benefit incidence angle covering the fund utilisation by local bodies vis-a-vis the benefits accrued to the society. The funds should be released to the local bodies on a time sliced basis, with proper sanction from a higher authority. The expenditure is found to have started rising to towering heights since 1996-97-the initial year of the reign of a newly sworn in ministry. Therefore the influence of the ideological leaning of the party in power should be looked into. It is once again fully made up of the voted component of which the plan voted content is more dominant. Therefore the control should start from planning, budgeting and end with legislative/departmental control. Considering the relatively huge size of the expenditure, the system of legislative committee should be strengthened in such as to have a separate Legislative Committee for monitoring this major head.
7. *Flood Control and Drainage*: Though FC&D is fully voted, budgetary or legislative control may not be so effective. For, keeping aside a specified sum through budgetary allocation is illogical for a contingent expenditure like FC&D. It would be more effective if an appropriation from the contingency fund is made by means of a charge created upon the consolidated fund as and when the need arises.

8. *Village & Small Industries (V&SI)*: The expenditure management should focus on the pillar of the three minor heads namely; Small Scale Industries, Khadi & Village Industries and Coir Industries following the canons of sanction and benefit. Since it is in the nature of a productive expenditure, by avoiding wastages and leakages, qualitative control should be brought about. With regard to the revenue capital mix, the former outweights the latter heavily; the revenue component stood at Rs. 10805.62 lakhs as against a small capital component of Rs. 691.55 lakhs in 2001-02. Therefore a proper balance between the two should be maintained to have effective control over the ever growing revenue component. Moreover, since it is finally decided upon by the vote of the legislature (Whole outlay is voted), legislative control should be made more effective.

9. *General Education*: General Education is in the nature of a productive (indirectly) expenditure. It results in the creation of human capital which may in turn bring about equitable distribution of incommand wealth. Hence instead of mere expenditure compressions or cuts, the orientation should be on reprioritisation and rationalisation of this expenditure head. The unutilised capacity in both primary and higher education due to shift in preference from government education to private education should be fully utilised.

The capital expenditure on General Education is very small (only Rs. 809.51 lakhs) when compared with its huge revenue component of Rs. 230805.80 lakhs (Actuals 2001-02). This huge imbalance in the mix should be properly negotiated. The domination of the voted component in the total lends it suitable for control through budgets,
legislative committees and the vote of the legislature. The sanctity of legislative sanction should be upheld while releasing money to the aided institutions. Moreover, ideological leaning of the party in power should not form the basis of legislative sanction. There should be a separate legislative committee to monitor the outlays on GE. Due to its seizable size in the total, the inflationery impact of financing this expenditure should also be looked into.

10. Urban Development (UD): Under various schemes, a substantial amount is diverted to the minor head Assistance to Local Bodies and Urban Development Authorities, etc. In 2001-02, these financial assistance amounted to Rs. 11572.49 lakhs, representing 94.4 percent of the total outlay under UD. The spending agency should see that funds are released to these local bodies on a time sliced basis and that the fund utilisation is brought under PER system. Due consideration should also be given to the low share of capital expenditure in the total mix, which stood at Rs. 257.17 lakhs (Actuals 2001-02).

UD is constituted as fully voted under both the plan and non-plan segments. It should therefore be scrutinised at the time of budgetary allocation in addition to legislative and administrative controls. UD has begun real take off since 1996-97, when it_roamed over its previous year figure by ten times. This period represents the tenure of a new government assuming power in the state. Therefore increase in the level of state activities and the consequent influence of the political party in power must have been the reasons for this ominous growth.

4. High Risk Expenditure

1. Interest Payments and Servicing of Debts: It includes three High Risk Expenditures viz., Interest on Internal Debt, Interest on Small Savings and Provident Funds and Interest on Loans and Advances from Central Government. They are the
major contributories to the growing fiscal crisis of the state because they are instrumental in creating a debt deficit spiral every year. The rising debt-service obligation is thus a key threat to sustainable development and intergenerational equity as it resulted in substantial reduction in investment expenditure which would have otherwise been directed to productive purposes. The usual control mechanisms like budgetary controls, departmental control, etc may not be so effective in managing these past commitments. Notwithstanding these difficulties, management of Interest payments and Servicing of debts should be done on a priority basis. The following seem to be some of the specific suggestions in this regard:

(a). The government should see that it borrows money only on the basis of affordability and sustainability and not on availability (b) New loans proposals should be subject to a structural process of debate both within the legislature and outside, before it is finalised (c). Limits may be envisaged on the total new debt to be raised. (d). Shift from short term high cost borrowings to long term low cost borrowings (e). Undertake programmes to swap the high cost debts. (f). Make adjustments in the interest rate according to the rates of inflation and make interest rates variable as in the case of private loans (g). Since there is no connection between the viability of projects and their financing costs and benefits, user charges for public services may be imposed without affecting the welfare of the poor.

Pension and Other Retirement Benefits: Pensions have a regular flow like salary bills and that pension payments cannot be postponed. Therefore adhoc expenditure cuts or compressions is not a solution. The government may make suitable negotiations and legislations to cut back the allowances on a time sliced basis. For ensuring reliable documentation, electronic transfers may be made use of. The evaluation system should be strengthened to ensure that the needy are getting the benefits. Pension plans may be linked with growth funds having insurance coverage. The individual market capitalisation system and the multi-pillar old age pension schemes appear to be suitable for this purpose.
At the minor head level the expenditure management should be vigilant enough to contain the chief contributory minor head, Superannuation and Retirement Allowances.

Quarterly monitoring of these High Risk and Risk Expenditures including adhoc controls have become imperative, having special focus set on Interest Payments and Servicing of Debts, Pension and Other Retirement Benefits and General Education. The spending agency must be prudent enough to see that the funds are seldom allotted to this category through supplementary grants, instead it is allotted only through annual budgetary allocations. Moreover, HREs and REs should be brought under thorough Public Expenditure Review.

General Suggestions for Strengthening the System of Public Expenditure Management in Government of Kerala

1. Effecting Changes in Budgeting and Accounting Systems

The incremental system of budgeting, based on previous year figure, followed in the state results in discretionary margin and unrealistic estimates of expenditure for the coming year. The system may even permit funds to be allotted for works which have already been completed. As a result budget fails to allocate, resources in accordance with strategic priorities and fails to forge link between planning, policy making and budgeting. This arbitrary and unrealistic estimates are major contributories to the state’s fiscal drain. This systemic weakness may be overcome by adopting Zero Based Budgeting or Performance Budgeting or integrating parts of which with the current budgeting system. If possible the accrual based system may be extended to budgets as well as practised in New Zealand.

To furnish a realistic picture of the state finances, the cash system of accounting followed in government may be replaced by the accrual system of accounting. To be more conservative, the receipts may be continue to be recorded on cash basis while
expenditure, assets and liabilities should be recorded on accrual basis. The Central government shall set up an Accounting Standards Board to specify the Accounting Standards to be followed and insist on the preparation of annual balance sheets, statement on sources and uses of funds and income statements on accrual basis. This would provide a more balanced judgement of the financial status of the country as well as the states. The government balance sheet prepared on the accrual basis of accounting would indicate the networth. Because erosion in networth as compared to earlier periods provides a measure of fiscal deficits and long run solvency of the government.

2. Strengthening Legislative Controls

The legislative control in the state over public expenditure seems weak and hence needs to be tightened by a greater use of the legislature’s own powers and strengthening its committee system. The legislators should uphold the sanctity of legislative sanction while voting for expenditures. The legislative committee system should be strengthened in such a way as to have separate committees for the major spending streams. Moreover, the legislative process should be preceded by a structural process of debate both in the house and outside to ensure that the consultation process is adequate. This shall be particularly true when fresh loan proposals are considered.

3. Setting New Auditing Standards

The Central Government shall set up new auditing standards, specifying the norms to be followed in the country. This may facilitate the audit by the Comptroller and Auditor General (CAG) undergoing external quality control reviews. Financial auditing should be made more effective to move to performance auditing, backed by a well designed internal audit system. Thus the ultimate aim of the audit should be to improve reliability, transparency and public accountability instead of the mere compliance to the statutes.
4. Restructuring and Reorientation of Spending Agencies

This shall involve reduction in the hierarchies of the spending agencies in the state and replace them with flatter, leaner and more flexible structures with a view to pruning the staff levels. In some select cases, employees may be organised into financially self-sufficient agencies with delegated responsibilities. The programme shall also aim at customer orientation and seek to make the public services client/citizen driven. There should, thus, be a shift from carrier to contract based services, supplemented by market based remuneration, rewards for meritorious services and strengthened anti-corruption activities.

5. Professionalism and Market Orientation in Spending Agencies

The government should see that the spending agencies in the state are going professional in approach, by embracing private sector styles of management practices. They may also be made commercial in approach, for this would enable them to take decisions on the basis of market principles including competitive bids and contracting out. The government will have to examine the possibility of public-private partnerships in the process of shared decision making. These re-orientation can make the state's spending agencies more output oriented and competitive, a necessary imperative to live up to the challenges of the new world order.

6. Greater use of Computerised Financial Management Information System (FMIS)

The government can make extensive use of FMIS by building physical and financial database on an online basis for the purpose of controlling aggregate spending, strategic prioritisation of expenditures across policies and better use of budget resources. Moreover, FMIS can also be used to maintain a proper liaison with treasury and effect budgetary controls through online computerised treasury networks. This exercise shall ultimately result in a computerised Integrated Financial Management System (IFMS). The system consists of an
interrelated set of subsystems such as accounting, budgeting, cash management, debt management and related internal controls that plan and report upon resources and quantifying them in financial terms.

7. Legislations on Transparency

Fiscal Transparency can make the state government more accountable for the implementation of fiscal policy and thereby strengthen credibility and public understanding of economic policies and choices and significantly enhance the quality of budget data. The IMF has given a code of Good Practices on Fiscal Transparency. They are a. Clarity of roles and responsibilities, b. Public availability of information, c. Open budget preparations, execution and reporting and d. Independent assurances of integrity. Suitable legislation should be enacted by the state government to incorporate the vital elements of transparency in the governmental fiscal operations, for transparency gives way to accountability and public confidence.

8. Strengthening the Public Expenditure Review System

The government should perceive Public Expenditure Review (PER) as a straight level priority and the entire expenditure of each major functions including plan and non-plan should be covered by PER. It should address the fundamentals of expenditure policy issues, management efficiency and required database. This will involve a redefinition of the scope of government i.e., what the government should do and what it neither do nor pay. PER process shall be fully integrated with regular budget processes and the results of such exercises has to be internalised.

9. Reprioritisation and Rationalisation of Expenditure

Since the share of capital expenditure in total expenditure is getting narrowed down year after year, there should be proper change in the mix and composition of the
total expenditure. The government should, therefore, aim at shedding inefficiencies and reprioritisation and rationalisation of current pattern of expenditure with the resultant savings to create capital assets and to tackle the second generation problems.

10. Others

The practice of the government to make token provisions for projects / programs without finalising their budget cost, time frame and technical as well as administrative aspects should be given up. Similarly practice of the government determining the non plan revenue expenditure first before raising the necessary revenue, should be abandoned. For these practices seemed to have been resulting in unnecessary escalation of expenditure. Government provides Grants-in-Aid to hundreds of autonomous bodies and institutions every year without ensuring that the expenditure is incurred for the intended purposes and timely accounts are submitted. Government should come out with a very clear policy on the nature, quantum and extent to which support should be granted to each category of institutions.

The government should improve efficiency in expenditure and ensure greater decentralisation of service delivery functions to the local self governments. This may be achieved by time sliced release of funds to the local bodies on the production of utilisation certificates and other reliable evidences of funds used. The less productive administrative costs should be cut back to the minimum by avoiding all possible leakages and wastages through austere and stringent measures. The government shall facilitate appropriate and transparent allocations of public expenditure among competing priorities. Extra budgetary provisions should be made transparent and valid and the state government should see that tax expenditure like concessions, allowances, etc. are exposed to extensive analysis and scrutiny.

Unless steps as suggested above are not taken, the efforts of the government in combating the crisis may turn out to be a futile exercise and force the government to resot to the easiest but dangerous option of debt financing, to further intensify the crisis.
Suggestions for Further Research

The present study has brought to light some important areas which require further investigation. The important research areas which require further investigation are the following:

1. An investigation into the management of public expenditure by other states and the central government in India can be made by applying the same methods used in the study; classifying various heads of expenditure into different Risk Classes and suggesting an appropriate system of management for each such risk classified expenditure.

2. A social cost benefit analysis of the Risk and High Risk Revenue Expenditures, identified in this study, can be undertaken with a view to rationalise or reprioritise or change the mix and composition or cut down on such select Risk and High Risk Expenditures.

3. The feasibility of adopting market principles and the accrual based accounting in Government of Kerala can be studied in comparison with the ongoing reforms in this area, taking place in the developed countries such as New Zealand, Australia, UK, etc.

4. An enquiry into the awesome growth of the preponderent non-plan revenue expenditure can be made, taking into account factors such as political influence, social progress or other uncontrollable events, with a view to identifying and managing the chief contributory factors.