Chapter V
State’s Debt and Financial Administration

5.1. Introduction

“Debt in many ways is like a cancer – once it gets a grip on a country it is very hard to eradicate and may spread unless the rest of the economy can be reinforced to overcome it.”

This chapter will analyse the State’s debt, public debt management and financial administration in the State’s economy. The research is emplaning more on the financial administration in the state economy. Debt is the last means for all the other alternatives. Servicing for the borrowed amount gives another burden to the government and the society at large. My argument is, please, don’t borrow, or otherwise borrow at the manageable debts. It requires skillful management of the borrowed funds. To try to survive and develop by one’s own means and resources is the best policy. However, there is the habit of borrowing by the individuals and the government. Most of them cannot avoid it.

In most of the underdeveloped and developing countries, the government of the economy used to borrows from inside and outside the economy for the purpose of financing the requirement of the present and for production activities where the current budgetary amount is inadequate. Inadequacy in financing the current needs forced the government to borrow, in the first instance. Another reason of borrowing is to fulfill the dreams and aspirations of the government for the growth and development of the economy. It signifies the production activities in the economy. The second one is more important than the first one. The question to answer for this reason is “why the government is borrowing and how to repay?” It is thought that public debt for unproductive purposes may not be good for the economy. Again, debt for productive purposes also needs to be examined. The amount for debt servicing and the prospective yields of the borrowed funds is the important thing that needs to be considered. The burning question is why we are borrowing. The answer should be of growth and development and no other alternatives. It implies that borrowing is for creation of productive capacity and generation of production activities in the economy. So, it becomes fruitful in the economy and the society at large.
5.2. Views on public debt by Economists:

The Classical View: In Burger’s (2003) understanding, the most famous classical economists, namely Adam Smith (1723 – 1790), David Ricardo (1772 – 1823) and John Stuart Mill (1806 – 1873) “perceived public debt as something negative”\(^2\).

Celebrated as the father of economics, Adam Smith postulates that higher public debt hampers capital accumulation and can be interpreted as an incentive to emigrate. Ricardo agrees with Smith in this point, since public debt raises taxes, which influences the decision of prospective taxpayers to leave or stay. To overcome debt, the government has to assure “the excess of the public revenue over the public expenditure”\(^3\) (Ricardo), which in turn increases the pressure on the population. Therefore, the government’s debt is the present and future burden of the citizens. The negative effect of debt concerning capital accumulation is explained by John Stuart Mill by arguing that debt reduces national saving. This saving is not disposable anymore and cannot be spent in a productive manner. The other way around is, an increase in debt influences the interest rate to raise, which, in turn, leads to less capital accumulation.


The Keynes view: John Maynard Keynes (1883 – 1946) constituted his economic subfield, generally called Keynesianism. His ideas became highly influential to economic policy after the Great Depression, since he brought the pro-active fiscal policy into play. Keynes argued, that increased saving will not lead to lower interest rates. Hence, saving has no positive effect on investment as long as the economy suffers under unemployment. In contrast to the classical economists, he proclaimed the ability of budget deficits to “absorb the idle saving”⁴

The New Classical View

“Public debt would be neither an evil nor a gallant animal, as it rather was simply neutered in the New Classical formulation”⁵. Buchanan (1958) exclaimed that Public debt allowed people in the present to shift the cost of government onto people to in the future.⁶ In the word of Dalton, “the Debt will involve a direct real burden or a direct real benefit to the community according to the nature of the series of transfers from the tax payer to the public creditors primarily it will bring burden or benefit, according as the transfers increase or decrease the inequality of income.”⁷

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⁴ Burger, P. 2003, op.cit, p.25.
5.3. The scenario of public debt in Manipur:

Borrowing is the routine habit in the State’s economy. The State government cannot forget the timing for borrowing. The borrowing habit reflects the backward nature of the economy. The mismatch between total expenditure and fund availability has made Manipur’s economy to frequently resort to borrowings. Manipur has been taking loans from the centre for plan purpose and non-plan purpose. Mostly the borrowed amounts are being used for unproductive activities. “As regards plan loans, the increase over the period 1974-75 to 1994-95 was marginal. The main reason is that the State has been getting most of the funds in the form of grants. The non-plan loans taken by the State has been much more than the plan loans. The State has been taking loans to cover gap in resources and as Ways and Means Advances. Whenever these two loans were taken, non-plan loans have been high. As a result of the increasing indebtedness, the cost of borrowing of the State has also been on the rise. In certain years, the amounts spent for debt servicing have been even larger than the new loans taken. The Net loans taken by the State in 1987-88 were even negative.”

Manipur’s public debt rose from Rs 8.2 crores in 1972-73 to Rs 1274.2 crores in 1999-2000. In the budget estimate for 2001-2002 it is expected to

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fall to Rs 982.8 crores. Between 1972-73 and 1999-2000 revenue deficit appeared only in 1972-73, 1973-74 and 1999-2000. There was surplus in the revenue account in most of the financial years. However, it must be emphasized here that our own resources raised through tax and non-tax revenue always constituted a minuscule portion of revenue receipts.⁹

The borrowing activities of the state governments can be done under Article 293 of the Indian Constitution upon the security of their consolidated funds. The state legislature can prescribe a limit within which a state government can borrow or can give guarantee. A state government cannot initiate a foreign loan on its own discretion. If a state is indebted to the Central government or if a loan guaranteed by the state government is outstanding, then the state government can raise further loans subjected to the approval of the Central government.

State’s Public debt consists of internal debt of the state government, loans and advances from the Central government. Internal debt comprises of market loans, loans from LIC, GIC, SBI, NABARD, NCDC, REC and ways and means advances from the RBI. The maximum source of the state’s debt is from Internal Debt.

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The outstanding debt of Manipur constituted 58.40% of the State’s Net Domestic Product at the end of 1972-73 and 58.55% at the end of 2005-06. The outstanding debt as percentage of NSDP was highest in the year 2004-05. The outstanding debt in terms of its percentage to States’ Net Domestic product has fluctuated over the years, the debt-NSDP ratio which was the lowest as 37.14 percent in 1994-95 rose to 78.97 percent in 2004-05, which was the highest Debt-NSDP ratio. The increase had been spectacular from 1998-99. It shows that State finance is certainly in bad shape. The principle of sound finance requires that the rate of growth of central loans should be less than the rate of growth of NSDP.\textsuperscript{10}

The State Government has been given facilities for converting the high cost debt into low cost market loans under the Debt Swap Scheme introduced by the Central Government since 2002-03. Under this scheme, the high cost debts, such as Small Savings loans are to be converted into low cost Open Market Borrowings. In 2002-03, outstanding Government of India loans amounting Rs. 18 crores were replaced by Open Market Loans. In 2003-04, Government of India loans for an amount of Rs. 40 crores will be converted into low interest bearing Open Market loans.\textsuperscript{11}


I am happy to announce that, in recognition of the steps taken by the State Government on the fiscal front, the Government of India has agreed to reschedule the loans obtained by the State Government and allow us to repay them over a period of 20 years at a lower rate of interest. The Government of India loans up to 2003-04 and outstanding as on 31/3/2005 amounting to Rs 750.81 crores have been consolidated into a single loan and the same has been rescheduled for repayment in the next 20 years in equal instalments of Rs 37.54 crores. This will now carry a lower interest rate of 7.5 % per annum as against an average of 12.40 % in the past. The benefit from rescheduling of the loans is Rs 319.40 crores in the 5 years of the award period. The rescheduled annual debt repayment liability will be Rs.37.54 crores per year instead of Rs.96.13 crores per year as per the pre-consolidation arrangements. Further, the State Government will get the benefit of write-off of the debt if the annual targets of revenue deficit and fiscal deficit are met as per the Act passed by this House.  

5.4. Sources of loan for the State Government

In a federal form of government, States can borrow from inside and from the federal or central government. The sources of loan for the State government are as follows: 1. Internal Source (Internal borrowing)

   a. Market borrowing   b. Loan from G.P.F account

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2. Loan from Government of India.
   a. Loan portion of the State Plan Assistance under ACA terms is now being arranged by the State Government on the recommendations of the 12th Finance Commission. b. Loan portion of additional Central Assistance under EAP on back to back basis.

3. a) Normal Central Assistance: It is determined by the Planning Commission annually on the basis of Gadgil-Mukherjee Formula. (70% Loan + 30% Grant). From the year 2005-06, Loan portion is arranged by the State Govt.
   b) Additional Central Assistance under Externally Aided Projects (ACA for EAP) The World Bank Loan and Grant from DFID or other agencies in respect of projects for which agreements have been signed on or before 31st March, 2005 are passed on to the State Government by Government of India as Additional Central Assistance under Externally Aided Projects. (70% Loan + 30% Grant) = 100% Grant.

5.5. Trends in Outstanding Debt:

The unpaid loans of the government can be termed as outstanding debt. The debt position in the State is more clearly stated with the analysis of the trend in the outstanding debt. The Total outstanding debt is composed of Internal Debt, Provident Fund and Central loans. The outstanding debt in the beginning of the period 2000-01 was Rs.1,52,049 lakhs (Table 5.1). It is
increasing year by year because of the routine habit of the State’s Debt. The Outstanding Debt of the State in the fiscal year 2011 reached Rs.4,58,122 lakhs.

Table 5.1

Outstanding Debt of Government of Manipur

<table>
<thead>
<tr>
<th>Year</th>
<th>Internal debt(OTS)</th>
<th>Central Loan(OTS)</th>
<th>Provident Fund(OTS)</th>
<th>Total Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>65399</td>
<td>39883</td>
<td>46767</td>
<td>152049</td>
</tr>
<tr>
<td>2001</td>
<td>81969</td>
<td>54864</td>
<td>55910</td>
<td>192743</td>
</tr>
<tr>
<td>2002</td>
<td>96366</td>
<td>46035</td>
<td>6004</td>
<td>148405</td>
</tr>
<tr>
<td>2003</td>
<td>60538</td>
<td>90444</td>
<td>55294</td>
<td>206276</td>
</tr>
<tr>
<td>2004</td>
<td>76598</td>
<td>83449</td>
<td>53860</td>
<td>213907</td>
</tr>
<tr>
<td>2005</td>
<td>77458</td>
<td>148050</td>
<td>55985</td>
<td>281493</td>
</tr>
<tr>
<td>2006</td>
<td>91404</td>
<td>144225</td>
<td>83681</td>
<td>319310</td>
</tr>
<tr>
<td>2007</td>
<td>113382</td>
<td>120328</td>
<td>112997</td>
<td>346707</td>
</tr>
<tr>
<td>2008</td>
<td>132378</td>
<td>96658</td>
<td>138160</td>
<td>367196</td>
</tr>
<tr>
<td>2009</td>
<td>156848</td>
<td>72662</td>
<td>163337</td>
<td>392847</td>
</tr>
<tr>
<td>2010</td>
<td>201358</td>
<td>68465</td>
<td>165830</td>
<td>435653</td>
</tr>
<tr>
<td>2011</td>
<td>224223</td>
<td>63939</td>
<td>169960</td>
<td>458122</td>
</tr>
</tbody>
</table>

Compiled and Computed:

1. Government of Manipur, Finance Account, Various issues
Figure 5.1 – Trend in Outstanding Debt

The above figures represent the composition and trends in the outstanding debt in the State during 2000 to 2010. The unpaid debt amount is increasing year by year as clearly seen in the figure. It may become serious and critical if there is no proper repayment plan.
Table 5.2
Outstanding Debt and Its Ratio to GSDP & NSDP

<table>
<thead>
<tr>
<th>Year</th>
<th>GSDP at current price</th>
<th>NSDP at current price</th>
<th>Outstanding Debt</th>
<th>Debt/GSDP</th>
<th>Debt/NSDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>292010</td>
<td>251713</td>
<td>152049</td>
<td>0.5206979</td>
<td>0.604057</td>
</tr>
<tr>
<td>2001</td>
<td>334423</td>
<td>294733</td>
<td>192743</td>
<td>0.5763449</td>
<td>0.65395799</td>
</tr>
<tr>
<td>2002</td>
<td>348171</td>
<td>305366</td>
<td>148405</td>
<td>0.4262417</td>
<td>0.48599058</td>
</tr>
<tr>
<td>2003</td>
<td>397924</td>
<td>356435</td>
<td>206276</td>
<td>0.5183804</td>
<td>0.57871982</td>
</tr>
<tr>
<td>2004</td>
<td>513336</td>
<td>460330</td>
<td>213907</td>
<td>0.4166998</td>
<td>0.46468186</td>
</tr>
<tr>
<td>2005</td>
<td>571988</td>
<td>514023</td>
<td>281493</td>
<td>0.492131</td>
<td>0.54762725</td>
</tr>
<tr>
<td>2006</td>
<td>613258</td>
<td>549822</td>
<td>319310</td>
<td>0.5206781</td>
<td>0.58075159</td>
</tr>
<tr>
<td>2007</td>
<td>678131</td>
<td>604785</td>
<td>346707</td>
<td>0.5112685</td>
<td>0.57327315</td>
</tr>
<tr>
<td>2008</td>
<td>739900</td>
<td>661484</td>
<td>367196</td>
<td>0.4962779</td>
<td>0.55510942</td>
</tr>
<tr>
<td>2009</td>
<td>831350</td>
<td>743646</td>
<td>392847</td>
<td>0.472541</td>
<td>0.52827152</td>
</tr>
<tr>
<td>2010</td>
<td>919780</td>
<td>822800</td>
<td>435653</td>
<td>0.4736491</td>
<td>0.52947618</td>
</tr>
<tr>
<td>2011</td>
<td>---</td>
<td>---</td>
<td>458122</td>
<td>-----</td>
<td>---------</td>
</tr>
</tbody>
</table>

Source: Compiled and computed,

More than 50% of the NSDP or more than 0.5 of the NSDP is falls on outstanding debt of the state. In the fiscal year 2000-01, the outstanding debt to the NSDP is 60% i.e. debt-NSDP ratio is 0.6. It reaches 65% in the fiscal year 2001-02, the height during the period 2000 to 2010. The ratio fell down to 0.52 i.e. 52% of the NSDP. The above figure shows the ratio of Outstanding Debt to the NSDP during the period 2000 to 2010.
5.6. Problem of Debt servicing and Interest Payment:

One of the big problems in the State’s Debt analysis is the interest payment and other debt servicing activities. Every year the state government is spending some certain amount of money for servicing the debt from its expenditure. It can be termed as ‘free money gone’ without any returns. There is no room for any return to the part of government’s income.

Table 5.3 shows the trends and composition of Debt servicing during the periods 2000 to 2010. Debt servicing in the state has five important components namely, Interest on loans & advances from the central government, Interest on internal debt, Interest on small saving & provident funds, Interest on reserve fund and Appropriation for reduction of advances of debt. The interest payment on loans & advances from the central government is highest in the fiscal year 2002-03, constituting an amount of Rs.12,475.97 lakhs. An amount of Rs.24,570.83 lakhs was spent for the interest payment in internal debt in the fiscal year 2010-11. Above all, the state government is paying interest on small saving & provident funds, and in the fiscal year 2010-11 the interest payment on this head was Rs.6,571.62 lakhs. The overall debt servicing in the state is at an increasing trend. The Debt servicing amount in the fiscal year 2010-11 reaches Rs.38,686.78 lakhs.
Table – 5.3

Payments on Debt Services in Manipur from Revenue Account

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest on Loans &amp; Advances From Centre</th>
<th>Interest on Internal Debt</th>
<th>Interest on Small Saving &amp; PF</th>
<th>Interest on Reserve Fund</th>
<th>Appropriation for Reduction of Advances of Debt</th>
<th>Total (Rs. In lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>4822.47</td>
<td>7694.51</td>
<td>5198.68</td>
<td></td>
<td></td>
<td>17715.66</td>
</tr>
<tr>
<td>2001-02</td>
<td>7037.94</td>
<td>7092.25</td>
<td>5010.55</td>
<td></td>
<td></td>
<td>19140.74</td>
</tr>
<tr>
<td>2002-03</td>
<td>12475.97</td>
<td>8511.81</td>
<td>4480.11</td>
<td></td>
<td></td>
<td>25467.89</td>
</tr>
<tr>
<td>2003-04</td>
<td>12456.21</td>
<td>5494.5</td>
<td>3582.77</td>
<td></td>
<td></td>
<td>21533.48</td>
</tr>
<tr>
<td>2004-05</td>
<td>10904.25</td>
<td>12148.72</td>
<td>3589.88</td>
<td>0.51</td>
<td></td>
<td>26643.36</td>
</tr>
<tr>
<td>2005-06</td>
<td>12506.9</td>
<td>7373.09</td>
<td>3873.44</td>
<td></td>
<td></td>
<td>23753.43</td>
</tr>
<tr>
<td>2006-07</td>
<td>11999.48</td>
<td>11980.4</td>
<td>4918.67</td>
<td></td>
<td></td>
<td>28898.55</td>
</tr>
<tr>
<td>2007-08</td>
<td>9877.46</td>
<td>14536.19</td>
<td>5436.58</td>
<td></td>
<td></td>
<td>29850.23</td>
</tr>
<tr>
<td>2008-09</td>
<td>7804.76</td>
<td>17378.48</td>
<td>6200.07</td>
<td>1366</td>
<td></td>
<td>32749.31</td>
</tr>
<tr>
<td>2009-10</td>
<td>5654.18</td>
<td>20348.15</td>
<td>6254.73</td>
<td>2332</td>
<td></td>
<td>34589.06</td>
</tr>
<tr>
<td>2010-11</td>
<td>5335.33</td>
<td>24570.83</td>
<td>6571.62</td>
<td>2209</td>
<td></td>
<td>38686.78</td>
</tr>
</tbody>
</table>

The total debt-servicing amount is increasing year by year. The interest payment on internal debt becoming a big share and the interest on loans and advances from the central government is also an important component of the state’s debt servicing. About 4 to 8 percent of the NSDP is
for debt servicing in the State during the period 2000 to 2010. In the fiscal year 2002-03, the debt servicing is 8.34 percent of the NSDP (Table 5.4).

Table 5.4

Ratio of Debt service to the NSDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt Servicing (Rs in lakhs)</th>
<th>NSDP (Rs in lakhs)</th>
<th>% of Debt Servicing to the NSDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>17715.66</td>
<td>251713</td>
<td>7.03803935</td>
</tr>
<tr>
<td>2001-02</td>
<td>19140.74</td>
<td>294733</td>
<td>6.4942643</td>
</tr>
<tr>
<td>2002-03</td>
<td>25467.89</td>
<td>305366</td>
<td>8.34011973</td>
</tr>
<tr>
<td>2003-04</td>
<td>21533.48</td>
<td>356435</td>
<td>6.04134835</td>
</tr>
<tr>
<td>2004-05</td>
<td>26643.36</td>
<td>460330</td>
<td>5.78788261</td>
</tr>
<tr>
<td>2005-06</td>
<td>23753.43</td>
<td>514023</td>
<td>4.6210831</td>
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<td>2006-07</td>
<td>28898.55</td>
<td>549822</td>
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<tr>
<td>2007-08</td>
<td>29850.23</td>
<td>604785</td>
<td>4.93567631</td>
</tr>
<tr>
<td>2008-09</td>
<td>32749.31</td>
<td>661484</td>
<td>4.95088468</td>
</tr>
<tr>
<td>2009-10</td>
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<td>4.65128031</td>
</tr>
<tr>
<td>2010-11</td>
<td>38686.78</td>
<td>822800</td>
<td>4.70184492</td>
</tr>
</tbody>
</table>

Source:

2. Government of Manipur, Finance Department, Annual Financial Statement, Various Years (For Debt Servicing).
5.7. State’s Debt Management:

The debt management refers to the formulation and implementation of debt policy for achieving certain objectives. If we borrow, we need to think of it, the payment and the interest charged on it. The interest should be as minimum as possible and should try to repay it as early as possible. In the words of Abott, “By management of debt is meant the choice of debt forms and proportionate amounts of the different types used, the selection of the pattern of debt maturities, the amount of debt placed with different classes of holders, the decision to repay or refund maturing obligation, the refunding terms offered, the treatment given to classes of debt and different types of bond holders, determination of the provisions attached to new bond issues, adaptation of new issues to the needs of the perspective holders, policies pursued in the retirement or creation of new debt and relative weights to all these matters in the government’s fiscal policy.”[13] It is general understanding that the debt financing of current expenditure leads to a burden upon future generation. In this regard, Mishan quoted a termed; “Burden Mongers”[14] which implies that all those who support the theory of shift of burden to future generation of the society.

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We should keep in view that we are borrowing for growth and development of the economy. Large and excessive borrowing will create debt management problem in the State. It is better to avoid the unnecessary borrowing. In this regard, Harris pointed that “the problem of debt management is largely that of keeping the debt burden at minimum, the concern is the rate of interest paid, the maturity schedule, the tailoring issues to market needs and the rate of repayment”\textsuperscript{15}.

The problem of State’s Debt management arises because of the excessive debt level and lack of attention of the authority for having prudent debt management strategy. If the debt is beyond the manageable or tolerable limit with compared to its own revenue a big problem of debt management arise. “How to repay” and “From where to repay” are the important questions for the present debt management in the State. Transfer of high interest rate to the low interest one is also another consideration. Manipur as one of the resource poor state need to borrow and has the routine habit of borrowing for its developmental programme. At least and by any means we need to repay the current year debt at the end of the particular year, so that the debt amount can decrease.

\textit{“Lowering the interest burden on debt was important in enabling the states to pursue a sustainable course. The approach to debt relief, linked

\textsuperscript{15} Harris, S.E. – The National Debt and the New Economics, New York 1947, as quoted by Kiran Barman, p.76.
with incentives to implement reforms, has greatly helped avoid moral hazard problems. However, while the focus has been mainly on direct debt obligations, contingent liabilities pose a serious fiscal risk on state’s finances, unless monitored and adequately controlled. Moreover, the aggregate picture masks interstate disparities and vulnerabilities, which require customized reforms and correction packages rather than a ―one-size-fits-all‖ approach.”¹⁶ It demands a right policy reforms on State debt. To monitor the existing debt (outstanding debt) and transform it into law market rate is the feasible solution. Restriction of present borrowing and if borrowed, by any means, repay back at the earliest possible time.

5.8. Financial administration:

Finance is the fuel of the engine of economic development. The direction and management of finance is very important for growth and development. How to raise fund, where to spend and how much and the prospective yields are the things important to be considered. Financial administration is the management of the finances of the government endowed with taxing, spending and borrowing powers. It is the administration of tax, proper records of the government receipts, Expenditure management and Public debt management. In fact, it is the fiscal

management of an economy. Fiscal management or the financial administration is a dynamic process involving continuous and unending operations of spending and raising funds for economic development.

**Who are the Administrators/Agents of the government finance?**

Financial administration and fiscal management consists of those operations to make funds available for the Governmental activities, and to ensure the lawful and efficient use of these funds. These operations are performed by the following agencies:

1) The Executive, ministers and the permanent administrators;

2) The Legislature, which alone can grant funds;

3) The Finance Ministry (Department) which controls the expenditure;

4) The Audit which sits in judgment over the way in which the funds have been spent.

5) The finance commission and planning commission.

6) Taxation and other revenue departments.

The financial administration covers the planning, programming, budgeting, reporting and evaluation. The best known machinery for fiscal management is the budget system. The management of the budget is a part of financial administration. Financial administration is a dynamic process, which has five well defined divisions namely:
1) “Preparation of the budget”, i.e., Estimates of the revenue and expenditure need for the ensuing financial year,

2) “Legislation of the Budget”, i.e., Securing Legislative sanction for the estimate (Estimates passed by the Legislature)

3) “Execution of the budget”, i.e., Execution of the revenue and expenditure operation.

4) “Treasury management”, i.e., safe custody of the funds raised, and due arrangement for the necessary payments to meet the liabilities; and

5) “Legislative accountability”, i.e., The Audit by the executive and the audit of these accounts.

5.9. Budget and Financial administration:

Budget document highlights all the activities of Government departments as well as public enterprises and Government aided agencies. An approved budget gives the administrators of the respective department a summary of the financial environment within which he has to work. It makes readily available to him information on varied features of his department’s plan and prospects which need to be taken into account in considering any change in policy. The emphasis is on projects, programmes and activities for which there is administrative responsibility in terms of cost, time and accomplishment.\(^\text{17}\) The finance minister being the head of the financial

\(^{17}\) Dream, D.W. – Financial Administration, \url{www.jeywin.com}, p.3
administration in the state, all the financial management jobs like preparation, finalizing and appropriation of the state budget are done under his direction and supervision. The finance minister is the hero of the budget for making sound financial system in the economy. All the critical tasks are under his control.

The legislature and executive plays an important role in the budget. The raising of income and spending of funds are all prepare and finalized by them. The duty of the legislature in the budget is the legislation of the budget and to pass the estimated amount in the house. Likewise, the executive, the minister and administrative officers can perform the collection of taxes and incurred the expenditure as authorized by the legislature.

The budgetary process involves the following four stages:

1. Preparation of the budget.
2. Legislative authorization of the enactment of the budget.
3. Execution of the budget.
4. Audit and Accounting.

Preparation of the Budget:

It is the formulation of estimates of revenue and expenditure for the ensuing financial year. The heads of the various administrative departments prepare the budget estimates of the ensuing fiscal year. The estimates of the heads of the officers are reviewed and scrutinised by the controlling officers. It will be again reviewed and scrutinised by the accountant general and the
administrative department. Finally, scrutiny by the Ministry of Finance and will consider of the consolidated estimates by the Cabinet.

The responsibility for the preparation of the budget estimates rests on the executive, the permanent administrator who is responsible for running the administration and is, therefore, in the best position to say what funds are required for it.

The Finance Ministry (Department) has the overall responsibility for the framing of the budget, but it is the administrative ministries which have the detailed knowledge of administrative requirements. For incorporating the plan priorities in the budget, the Finance Ministry has to be in close touch with the Planning Commission. Also, the Comptroller and Auditor-General come into the picture since it is he who makes available the accounting skills — necessary for the preparation of the estimates.

The work in connection with the preparation of the budget estimates begins 6 to 8 months before the commencement of the next financial year. Since the Indian financial year commences on April 1, budget preparation begins in India in the month of September. The ball is set rolling by a circular of the Finance Ministry (or the Finance Department in case of States) to the various administrative Ministries or departments asking them to start the preparation of the estimates. This directive is passing on to the disbursing officers, i.e., the heads of offices. Printed forms are supplied
wherein the estimates and the other requisite information have to be filled in.

Each form contains columns for:

a) Actuals of the previous year,

b) Sanctioned estimates for the current year,

c) Revised estimates for current year,

d) Budget estimates of the next year,

e) Actuals of the current year (at the time of the preparation), and

f) Actuals of the corresponding period of the previous year.

The estimates of the coming year are made on the basis of:

1. The revised estimates for the current year;

2. The 12 month’s actuals of the last year;

3. Any recognizable irregularity in past year’s figures; and

4. Any special circumstances causing variations.

**Enactment of the budget:**

It is the legislative duty and requires collective responsibility of all the members of the state legislature (or Parliament). First of all, the details of all the estimates are introduced by the finance minister. The copies of the budget together with the finance statement are printed and circulated to all the members for their reference.

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18 ibid, p.12.
After a few days, the speaker fixed a date for “General Discussion” on the budget is to take place. The discussion is related to the general principles and policy underlying a review and criticism of the administration of the various departments (ministries). The finance minister makes a general reply at the end of the discussion. After the general discussion, the next proceeding is “Voting of Demands” for Grants. The concerned minister has to defend the administration against all criticism that is leveled against it by the opposition. At the end of the discussion of each demand, the demand is put to the vote of the House. A demand when duly voted becomes a Grant. The next stage is the passage of the “Annual Appropriation Bill” into a statute. All the demands voted and the expenditure charged on the consolidated fund are put together and incorporated in a Bill called Annual Appropriation bill. The last stage of the enactment of the budget is the “Finance Bill”. The appropriation act authorizes the government to appropriate money from the consolidated fund but it is not so far been provided wherefrom the money for expenditure would come. Provision is made for collecting the required money by way of taxation. The finance bill incorporates the financial proposals of the government for the ensuing year and is placed before the house as the same time as the budget.
The Execution of the budget:

The execution of the budget is the responsibility of the executive as grants of money are already made by the legislature. The proper management and control comes in the hand of the executive, the permanent and temporary administrators. The machinery of executive control over expenditure consists of:

(a) The Finance Ministry i.e. the Finance department and

(b) The heads of various administrative departments.

The Finance Ministry/the Finance Department: The Ministry of Finance has been given the responsibility to exercise over-all control over the budget execution. As an instrument for carrying out the financial policies of the Government, the Finance department of the ministry of Finance supervises the finances of spending authorities by checking over their expenditure at three stages. These are:

(i) Approval of programmes or policies in principle;

(ii) Acceptance of provisions in the budget estimates;

(iii) Prior concurrence to incurring of expenditure subject to such powers as may have been delegated to the administrative Ministries/ departments.

In fact, it is the control at the first and third stages that generally, engage much of the attention and time of the Finance Ministry and that

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19 ibid, p.16-17.
impinges on the day-to-day working of the administrative Ministries. The Finance Ministry also performs a number of other duties in connection with the carrying out of the budget. These are:

(i) Seeing that administrative Ministries/Departments do not receive more funds, during the financial year than they can spend, and that they surrender unspent balances as early as possible before the close of the financial year;

(ii) Watching the progress of expenditure of the various departments through periodic reports from them, and cautioning them when necessary;

(iii) Supervising revenue collection through the Taxation and Revenue department which collects the more important taxes of the state;

(iv) Sanctioning reappropriations beyond the competence of the controlling officers; and

(v) Giving financial advice and guidance to the administrative Departments and Ministries.

The Departmental Heads of the various Administrative Units:
Subject to the overall control of the Finance Minister, the head of each administrative department is designated as the controlling officer in respect to the expenditure occurring in his department. It is the responsibility of the controlling officers to keep a continuous watch over the current and anticipated expenditure with an object to see that the amounts so placed at their disposal are spent on the specified purposes. The Comptroller and
Auditor General watch the progress of expenditure against the legislative sanction under each detailed head.

Budget execution is a continuous process and takes places in the following manner. The preliminary review takes place in the month of September, when four month’s figures of actual expenditure are taken into account. The next review is in the month of December. Similarly, the third review is undertaken in January. It is at this point of time, a revised estimate is prepared based upon nine months’ actuals. Finally, there is a modified appropriation for the final estimates. If the Finance Ministry feels satisfied, it presents a supplementary budget. It is quite often that excess and deficiencies take place under different heads within the same grant. The department, where necessary, in consultation with the Finance Ministry, can sanction transfers from one head to another. Those departments which do not require the full amount of grant will surrender it to the Finance Ministry and to be utilised elsewhere. Execution of budget rests on the following processes:

(i) Proper collection of revenues;

(ii) Proper custody of collected funds; and

(iii) Proper disbursement of funds.

**Proper Collection of Revenues:** Collection of revenue is the first step and it involves two major operations — assessment of revenue and its collection. Assessment is the determination of amount to be collected from
various bodies or individuals in accordance with the authority given by the legislature. It requires a high sense of judgement and discretion. On the other hand, collection is the act of actually collecting the amount assessed. It requires a high degree of accuracy and integrity and the collecting agency cannot use its own discretion. In Manipur, the taxation and Revenue department of the Finance Ministry exercises overall control and supervision over the machinery engaged in the collection of direct and indirect taxes. Such control is exercised through the finance department and the auditor general.

**Custody of Funds:** The main aim is to avoid all possibilities of embezzlement and misappropriation and to ensure convenience and promptness in money transactions. The financial administration of any country, from the custody point of view, depends upon its history, its area and the banking facilities. The Government Treasuries for the custody of Government funds are fast disappearing due to the emergence of the wide banking network. Through the use of the banking system it is no longer necessary to carry on all the financial transactions through cash as now most of the work can be done through Demand drafts, cheques, and bank bills.

**Disbursement of Funds:** It is the process of withdrawal of money for the payment of various liabilities. A heavy duty lies on the disbursing officer who withdraws the money from the treasury and disburses it. Every
care should be taken in the work of disbursement against illegal and inaccurate withdrawals and payments.

**Accounting and Audit:**

The indispensable means for financial control is Accounting and Auditing. Accounting is done in two forms; The Appropriation Accounts and the Finance Accounts. The Appropriation Account is an account comparing the total grants, original and supplementary, made by legislature for particular purposes for a financial year with the actual expenditure incurred for these purposes during the year. The Public Accounts Committee examines this account. Subsidiary accounts such as the profit and loss accounts and balance sheet of the commercial undertakings of the Government, stores accounts, works accounts, etc., are appended to the Appropriation Account to give details of expenditure concerning these. The Finance Account is a comprehensive account of the receipts and expenditure of the State Government classified under the various heads and sub-heads of the budget. The accounting and audit is done in the State by the Comptroller and Auditor General. The control over the State government budget can be analyses under the three wings:

- Legislative Control
- Administrative Control
- Audit Control.
**Legislative control:** The legislative control over the budgetary expenditure of the various departments has been done by the Public Account Committee and the Estimate committee. The Public Account Committee conducts the relative enquiries on the report of the Comptroller and Auditor General and Appropriation Accounts and detecting Malpractices, Irregularities, and Misappropriation. They can demand disciplinary action taken against particular officer found responsible for loss or wastage of public funds. Another committee of the State Legislative Assembly that exercises the legislative control of the government expenditure is the Estimate Committee. Actually, the legislative control is the control by the opposition or members who are not in executive. They are the person who see the bad sides of the administrators. They are the ready man to speak out the worse of the administrators. So, it becomes a good control machinery for improvement.

**Administrative Control:** It is also known as self-control. The administrative control is made by the Head of Various administrative Departments over the Expenditure incurred by their respective disbursing officers. Such control is to check the accuracy of the estimates of expenditure for excessive or less spent in the year. Finance department of the state plays an important role for administrative control of the entire transactions for the various administrative units.
**Audit control:** The accountant general of Manipur is the representative of the Comptroller and Auditor General and is responsible for the preparation of accounts. The accountant general exercises control over expenditure through conducting an audit of the expenditure incurred with compared to the allotments made out of the grants. There are three annual documents prepare by the Accountant General, namely 1) Appropriation Accounts 2) Audit Report and 3) Finance Accounts. The findings of Audit report narrate the cases of financial irregularities, misappropriation, wasteful expenditure and avoidable expenditure.

5.10. **Leakages in Financial Administration in Manipur:**

A proper fiscal management and good financial administration can bring development in the state. But, there are various loopholes in the administration of finance in the state. There is no accountability and corruption becomes a daily share of food item for every department in the state. The taxing and spending norms of the public finance and the fiscal obligation for growth are becoming contradictory in the state. The head of the institutions of various administrative departments are mostly inexpert and not properly trained in the fiscal field.

5.10.1. **Leakages of Financial administration on the revenue front:**

A nature of financial management can be seen from the power of revenue collection of the Economy. The efficiency of administrative
financial machinery depends on the effectiveness in controlling the government revenue. The tax reforms, the tax administration and the tax collection of the state represent the financial skill in administration on the revenue front. In the context of Manipur there are lots of leakages in the administration of revenue. “Test check of records of the tax receipts and other non-tax receipts conducted during the year 2005-06 revenue under assessment, non-levy, short levy and loss of revenue amounting to Rs. 243.70 crores in 80 cases.”

Financial leakage in the Taxation department:

There is non-assessment of professional tax in the taxation department. According to the audit report, a professional tax amounting to Rs.43.23 lakhs including Rs.26 lakh which had remained unrealized for more than three years was not realized from the principal officers.

Test check of the records (February - March 2009) of the Station Director, All India Radio (AIR), Imphal and the Station Director, Doordarshan Kendra, (DDK), Imphal revealed that the concerned principal officers had not paid professional tax amounting to Rs. 43.23 lakh due for the period from 2001-02 to 2008-09. However, no notice was served by the AA (Assessing Authority) to the principal officers to assess their income and realise the tax despite the fact that out of this amount, Rs. 26 lakh had remained unrealised for more than three years. The matter was reported to

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the Taxation Department/Government in June 2009. The department admitted the fact and stated (December 2009) that Rs. 0.97 lakh had been recovered so far and efforts for recovery of the remaining amount had been initiated.  

Financial Leakage in the Transport Department:

Non-collection of professional tax has been found from the various permits holders of goods vehicles, trucks and three wheelers by the Transport department.

Test check of the records (April 2008) of the Director of Transport and the DTO, Bishnupur revealed that 2,495 permits were issued/renewed during 2005-08 in respect of various vehicles but professional tax amounting to Rs. 24.9532 lakh was not collected from the permit holders of various vehicles.

After this was pointed out in audit, the DTO, Bishnupur stated (October 2008) that professional tax could not be collected as the permit holders did not come forward to pay the tax due, inspite of wide publicity for its timely payment. Demand notices were also stated to have been served to the concerned permit holders to clear the professional tax due against them. Progress on realization of the tax due has not been received (May 2009). The

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22 Ibid, p.103
matter was reported to the Government (June-July 2008), their reply has not been received (December 2009).

**Financial Leakage in the Home Department:**

There has been found non-realisation of cost for the deployment of security guards in various banks.

Test check of the records (January 2009) of the office of the DGP Manipur revealed that the armed guard charges amounting to Rs. 73.50 lakh for security guards deployed for periods ranging from 7 months to 17 years to 11 branches of six banks were not paid by the concerned banks. Of this, Rs. 29.45 lakh was pending for more than five years. Though the charges were not paid, the security guards were continued to be deployed in these defaulting banks/branches. There was nothing on record to indicate that the security guards were at any time withdrawn. Thus, revenue amounting to Rs. 73.50 lakh was not realised. After this was pointed out the department intimated (December 2009) that Rs. 4.90 lakh out of Rs 17.13 lakh had been recovered from three34 banks. Report on recovery of the remaining amount and that due from other banks has not been received (October 2009). The matter was referred to the Government (July 2009); their reply has not been received (December 2009).\(^{23}\)

Financial Leakage in the Power Department:

There has been found a lot of corruption in the electricity department. It was found the misappropriation of Government revenue, “Electricity bill amounting to Rs. 15.60 lakh paid by a consumer was utilised for unofficial purpose” (See below Para). Another case is Short levy of Electricity charge, “Application of incorrect rate of billing resulted in short levy of electricity charges of Rs. 39.67 lakh”.

Test check of the records (September 2008) of the Executive Engineer (EE), Kangpokpi Electrical Division revealed that the Garrison Engineer, 869 – Engine, Leimakhong (Consumer No L-12), had paid energy and demand charges amounting to Rs. 15.60 lakh vide two cheques dated January 2007 and November 2007. The details of remittance of the said revenue including copies of the relevant challans were not on record. This amount was neither taken into the cash book nor accounted for in the monthly accounts of the division.24

Test check of the records of the Executive Engineer (EE), Churachandpur Electricity Division, (August 2008), EE, Bishnupur Electricity Division and EE, Kangpokpi Division (November 2008) revealed that the six bulk consumers were not provided meters while in one industrial unit36 meter was not in working condition. Thus, the consumers were liable to pay energy charges at flat rates and demand charges as per the Regulation

ibid, which amounted to Rs. 1.04 crore. However, the department levied energy charges either at the minimum rate applicable to power connection with meter or at a rate lesser than the minimum rate. Demand charges were also worked out incorrectly. The revenue realised due to adoption of incorrect rates of energy charges and demand charges was Rs. 64.34 lakh, resulting in short realization of revenue of Rs. 39.67 lakh.\textsuperscript{25}

5.10.2 The Financial Leakages on the Expenditure Front:

Mismanagement and Leakages were found on the expenditure side of the fiscal policy of the government of Manipur. The excessive, unnecessary, inadequate appropriations, theft of public money, wastage, leakages on account of terrorism-related extortion and corruption are some of the basic problem of management of government expenditure. The expenditure estimates and the direction of expenditure are not in the right and the desired goals of the economy. Some of the audit findings are as follows;

An ill financial management (misappropriation) was found in the electricity department. “Availability of funds was not a constraint to the working of the Department (Electricity) whether to control T and D losses or to make payment to suppliers of power to the state. The extent of savings ranged between 16 to 64 percent which indicated the budget allocation was

\textsuperscript{25} ibid, p.105.
not justified and based on inflected estimates. Reasons for saving were not furnished to audit.”

“The stores held by the Electricity Maintenance Division No.1 were transferred to the stores and purchase Division. As the Stock register had not been closed by the Electricity Maintenance Division No.1, the Store and Purchase Division had opened the stock register on the basis of the ground balance of Rs.32.44 lakhs. The Department has not so far taken any action to reconcile the difference of Rs. 8.30 lakhs between the book balance and ground balance.”

A wastage of public property was found in Irrigation and Flood Control Department (IFCD), “test check of records (Nov.2002) of the Executive Engineer, Project Stores Division, IFCD Imphal revealed that the division had procured 37 items of various stores during 1980-95 at Rs.18.22 lakhs most of which could not be utilized and as of October 2002 stores worth Rs. 14.85 lakhs were laying in stock for a period ranging from 6-22 years. Of these 23 items of store procured during 1980-1994 valued at Rs. 6.71 lakhs were not issued since procurement.”

The report of the Comptroller and the Auditor General of India, government of Manipur in the year 2010 stated that, a doubtful expenditure of Rs 9.21 crore was incurred in regard to construction of guide bund which

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28 Ibid, p.23.
was constructed under unacceptable circumstances and without transparency. The report stated that test check records of the Dolaithabi Barrage Division number 1 during June -July 2011 revealed that earthwork of Rs 3.66 lakh cum guide bund (embankment) which was included upto the 1st revised project report had been completed at a cost of Rs 3.39 crore on March 2008 while there was no further provision for construction of embankments in the second revised project reported by the central water commission. Ignoring the guidelines, the IFCD awarded (99) ninety nine work orders to five(5) local contractors at a total cost of Rs 10.19 crores through restricted tender of Rs 4.60 lakh for construction of embankment regarding a total length of 36.88 km along the Iril River upstream of the Dolaithabi barrage. A sum of Rs 9.21 crore was paid on March 2010 to the five contractors for the said work. The audit conducted in this regard noticed that construction of the embankments was neither based on survey report nor was it provided in the Annual Action Plan. Further, as the value of the work was above Rs one crore, approval of the Project Implementation Board was to be obtained; however instead of the board, approval was given at the level of the Chief Engineer. The following shortcomings were also noticed in the construction of the embankments, as per norm, the slopes of the side of the embankment should not be more than 27 degree, however the slopes of the sides of the
embankments worked out to be 74 to 80 degrees, far steeper than the norm and which would render the structure unreliable.29

Financial Management and Budgetary Control During 2010-11, an expenditure of Rs 6,124.90 crore was incurred against a total budget provision of Rs 6,804.04 crore, resulting in an overall saving of Rs 679.14 crore. The overall saving was the net result of saving of Rs 741.56 crore offset by excess of Rs 62.42 crore. The excess of expenditure requires regularization under Article 205 of the Constitution of India. An expenditure of Rs 113.95 crore was incurred in 22 cases without any provision in the original estimates/supplementary demand/re-appropriation. Supplementary provision aggregating Rs 75.58 crore in 14 cases was unnecessary as the expenditure did not come up to the level of original provision while in five cases, supplementary provision of Rs 88.82 crore proved insufficient by more than Rs 10 lakh in each case. Substantial surrenders (amount exceeding Rs 50 lakh in each case) were made in respect of 18 sub-heads, out of which in one scheme/programme (Deen Dayal Hatkargha Protsahan Yojana), the whole provision amounting to Rs 3.96 crore was surrendered while in six cases an amount of Rs 222.34 crore was surrendered despite having no provision of funds in the respective heads of accounts. Out of Rs 2,019.49 crore paid through Abstract Contingent (AC) bills during 2003-11, Detailed

29 "Doubtful Expenditure of Rs. 9.21 cr for Dolithabi Project Embankment Found", Imphal Free Press, March 30, 2011
Countersigned Contingent (DCC) bills for Rs 653.29 crore are outstanding as on October 2011.\textsuperscript{30}

The State needs to go a long journey to attain the desired goals of development. There were a lot of inefficiency and ill management, disturbances and lack of transparency and accountability in the State Fiscal behavior. We are facing “double loss” or loss in twice due to ill management on the revenue side and on the Expenditure side. Treble loss occurs if we include the interest payment in Public Debt. If all the people walk on the footpath, all vehicles parked at parking and driving vehicles without any cost and disturbances, an easier traffic can be maintained. There will be no fiscal problem if we follow the norms of public finance, the taxing, spending and right management. The attitude and behavior of the individuals and the society as a whole and their responsibility and accountability in fiscal management will direct the state fiscal health. People are not paying taxes and expenditure is not proper causing disturbances in the overall administration. So, we can conclude that due to having ill-attitude and misbehavior fiscal management, the financial administration in the state economy is not of the advanced administration and the economy remains backward.

**Chapter VI**

State Receipts vs. Expenditure: A Link to Development

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